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Australian Energy Market Commission
PO Box A2449
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Dear Commissioners,

STTM deviations and the settlement surplus shortfall

A: Introduction

EnergyAustralia welcomes the opportunity to comment on Australian Energy Market Operator's (AEMO) Rule change in relation to the "STTM deviations and the settlement surplus and shortfall".

We support the Rule change as submitted by AEMO. Whilst we can see that there might be other ways in which the deviation pricing design might be altered to simplify it and improve its efficiency, we consider that the proposed Rule change represents a positive development that should strengthen the 'cost to cause' principle in the deviation pricing design and simplify and improve the efficiency of deviation pricing.

Given AEMO considers that there is a misalignment between costs to the market resulting from Market Operator Service (MOS) and income to the market from deviation charges and payments in the Short Term Trading Market (STTM), the proposal to reform the deviation pricing appears to be logical.

B: Key proposals

Energy Australia supports this Rule change. It includes three core components that comprise of:

- The removal of the settlement surplus cap
- The deletion of the deviation parameter tables
- Amendments to a series of definitions including the Market Price Cap (MPC), Minimum Market Price (MMP) deviation payment and deviation charge.

Below, we provide our key input on the specific parts of the Rule change below.

1. Removal of the settlement surplus cap

EnergyAustralia supports the removal of the settlement surplus cap.

We consider the removal of the settlement surplus cap to be consistent with the costs to cause principle for deviation pricing and monthly settlements.

Whilst we can see that the inclusion of the settlement surplus cap in the pricing deviation design can incentivise shippers to provide more accurate forecasts, on balance, we consider its removal is warranted.

As we understand it, currently, on average, deviation payments and charges only recover 20-30% of MOS costs. As such, a considerable proportion of MOS costs need to be recovered through the monthly settlement surplus and shortfall process.

Under the costs to cause approach, the deviation charges and payments would be set to recover sufficient revenue to cover the cost of MOS that are caused by deviations.

AEMO expects that the changes to the deviation price design will reduce the magnitude of the settlement surplus or shortfall by about 80%. In addition, it will assign the cost of MOS to a participant that caused it on a particular Gas day. As a result, we support this specific amendment.

2. Deletion of the graduated deviation parameters

EnergyAustralia supports the removal of the graduated deviation parameters.

With the proposal to introduce the average cost of MOS into the deviation pricing design, we agree that there is no real need for the graduated deviation payments. This is because the average MOS charge will generally be higher than the ex-ante price, which means that the ex-ante price will rarely determine deviation prices under the proposed changes to the procedures.

3. Amendments to a series of definitions in the NGR

EnergyAustralia is comfortable with the proposed amendments to some key definitions in the NGR on the basis they are consistent with the changes to the deviation pricing design. Overall, the changes appear to be necessary to strengthen the “cost to cause” principle that underlies the Rule change.

AEMO considers that in order to fully assign the full cost of decrease MOS to participants with long deviations, the price of a long deviation needs to be allowed to be negative. In AEMO’s view, this would result in a better “cost to cause” principle. Hence, AEMO proposes that definition of the MMP should be changed to reflect the view that a deviation payment should not only result in a payment to trading participant by AEMO, but may also result in a trading payment by a deviating trading participant to AEMO.

AEMO also proposes to clarify the definition of the MMP to ensure that it does not apply to deviation pricing which would allow deviation payments to be negative.

Finally, AEMO proposes similar amendments to the definitions of MPC and “deviation charge”.

C: Conclusion

EnergyAustralia supports the Rule change as submitted by AEMO.

Whilst we can see that there might be other ways in which the deviation pricing design might be altered to simplify it and improve its efficiency, we consider that the proposed Rule change as submitted by AEMO represents a positive development.

For any enquiries regarding this letter, please feel free to contact con.noutso@energyaustralia.com.au on Tel: 03 8628 1240.

Yours sincerely

Signed for email

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