

**Australian Energy Market Commission**

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## **CONSULTATION PAPER**

**National Gas Amendment (Market operator service - timing and eligibility) Rule 2012**

**Rule Proponent(s)**

Australian Energy Market Operator

13 September 2012

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Chief Executive

For and on behalf of the Australian Energy Market Commission

**RULE  
CHANGE**

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## **About the AEMC**

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two principle functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

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## Contents

<b>1</b>	<b>Introduction .....</b>	<b>1</b>
<b>2</b>	<b>Background .....</b>	<b>2</b>
2.1	The short term trading market .....	2
2.2	Market operator service .....	3
<b>3</b>	<b>Details of the rule change request .....</b>	<b>5</b>
3.1	Proponent's rule change request .....	5
3.2	Rationale for the rule change request.....	5
3.3	Issue for consideration regarding the MOS timing aspects of the request .....	8
3.4	Transitional rule .....	9
3.5	Implementation costs.....	9
<b>4</b>	<b>Assessment framework.....</b>	<b>10</b>
<b>5</b>	<b>Issues for consultation .....</b>	<b>11</b>
5.1	Rules to Procedures .....	11
5.2	Eligible MOS providers .....	15
<b>6</b>	<b>Lodging a submission .....</b>	<b>17</b>
6.1	Lodging a submission electronically .....	17
6.2	Lodging a submission by mail .....	17
	<b>Abbreviations.....</b>	<b>18</b>



# 1 Introduction

On 22 June 2012, the Australian Energy Market Operator (AEMO or proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to market operator services (MOS). The rule change request has two components. The request seeks to:

- move certain provisions dealing with timing aspects of the MOS offering process from the National Gas Rules (NGR) to the Short Term Trading Market (STTM) Procedures (Procedures); and
- broaden the eligibility for MOS provision from STTM Shippers that have a contract with a facility operator to any STTM Shipper provided there is an underlying agreement that allows this to occur.

This consultation paper has been prepared by the staff of the AEMC to facilitate public consultation on the rule change proposal. It does not necessarily represent the views of the AEMC or any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and a background to, the rule change request;
- identifies a number of questions and issues to facilitate the consultation on this rule change request; and
- outlines the process for making submissions.

## 2 Background

### 2.1 The short term trading market

This chapter provides background information on the STTM and describes the role of MOS in STTM operations.<sup>1</sup>

The STTM is a market for the trading of natural gas at the wholesale level, currently operating at defined hubs in Adelaide, Brisbane and Sydney. It provides participants with the opportunity to buy and sell gas in the open market, as an alternative for or in addition to, existing long-term industry contracts. As a trading market, the STTM does not deal with the actual physical flow of gas. The STTM is operated and administered by AEMO.

Essentially, gas is traded a day before it is scheduled to be transported to a hub ('day ahead' market). The day before the actual 'gas day', pipeline operators submit pipeline capacity information to AEMO, which publishes this data. STTM Users and Shippers<sup>2</sup> can then place bids to buy quantities of gas at the hub and STTM Shippers can place offers to sell quantities of gas to the hub.

On the basis of this information, via an automated process, AEMO matches offers and bids, determines the (ex-ante) market price and draws up the initial market schedules for the flow of gas to and from the hub on the gas day.

The market schedule is published by AEMO approximately 18 hours ahead of the gas day so that shippers can use this information to nominate the quantity of gas they require from each pipeline operator (a process which occurs outside of the STTM). Pipeline operators then prepare pipeline allocation schedules, detailing the quantities of gas to be delivered to each shipper on each pipeline on the gas day.

On the gas day, shippers supply gas to the hub, and users withdraw gas at the hub. Typically, volumes delivered to or withdrawn from the hub over the gas day differ from the ex-ante market schedules, for example as a result of forecasting inaccuracies. This is referred to as a 'deviation'.

In order to incentivise Trading Participants in the STTM<sup>3</sup> to forecast as accurately as possible, or stay within their scheduled loads, a deviation incurs a financial penalty. Deviation penalties are calculated by AEMO as part of the settlement process.<sup>4</sup> Among

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<sup>1</sup> Information in this section was derived from AEMO, *Industry Guide to the STTM* (December 2011) and *Overview of the Short Term Trading Market for Natural Gas* (December 2011).

<sup>2</sup> In order to participate in the STTM, parties have to register in one or more capacities with AEMO. Under the NGR, STTM Users are defined (NGR, rule 364) as trading participants that have a registered, contractual right to withdraw gas from the hub (for example: retailers or large end users). In addition, STTM Shippers are defined as participants that have a registered, contractual right to deliver gas to the hub on a pipeline or a storage facility that is connected to the hub. They may also have the right to withdraw gas from the hub, for example if this is needed to balance demand and supply at the hub.

<sup>3</sup> A 'Trading Participant' in the STTM can be an STTM Shipper or an STTM User. See NGR, rule 364.

<sup>4</sup> To settle the market, AEMO issues invoices on a monthly basis and a revised invoice (taking into account actual metering data after nine months) for a final settlement.

other things, this assists AEMO in balancing the gas supply, thereby minimising market costs for balancing and maintaining the integrity of the operating system.

For an individual Trading Participant, the 'deviation quantity' is the difference between its (modified) market schedule quantity and its actual allocated quantity of gas. Trading Participants can reduce exposure to deviation penalties by submitting 'market schedule variations' to AEMO to cover for changes in demand and supply that occurred. By submitting a market schedule variation to AEMO, a participant's market schedule is modified and will better align with their actual allocations on a gas day.

At the pipeline level, a 'pipeline deviation' is the difference between the aggregate quantity of gas nominated in advance by shippers to the STTM pipeline operator for delivery to a hub on a certain gas day, and the actual quantity of gas delivered to the hub via that pipeline on the same day. Pipeline deviations are determined on the basis of actual flow data which pipeline operators measure for each pipeline after each gas day. A positive pipeline deviation means more gas was delivered to the hub than nominated in advance, while a negative deviation means less gas was delivered than nominated in advance.

## **2.2 Market operator service**

MOS is an on-the-day mechanism used to balance the amount of physical gas that actually flows on a pipeline connected to an STTM hub with the amount of gas scheduled to flow on that pipeline to that hub. In STTM terminology, MOS is defined as "the market operator service by which capacity (in GJ) is provided to balance pipeline deviations by increasing or decreasing the quantity of natural gas supplied to or withdrawn from a hub using an STTM pipeline."<sup>5</sup>

In practice, MOS is calculated as the difference between final nominations made by STTM shippers to the pipeline operator (scheduled flows) and the actual quantity of gas supplied to the hub by that pipeline operator (actual flows). If this difference is not otherwise allocated by a pipeline operator to a shipper, MOS is deemed to have provided the gas. MOS is determined separately for each pipeline supplying a hub each day after the gas day has ended.

### *Management of MOS*

Currently, the supply of MOS in the STTM is restricted to shippers who hold a contract with an STTM facility operator<sup>6</sup> that entitle the shipper to either withdraw ('loan') gas from the facility (in order to increase the quantity of gas in the pipeline), or store ('park') gas on the facility (in order to decrease the quantity of gas in the pipeline). In STTM terminology, these shippers are referred to as 'eligible contract holders'.<sup>7</sup>

MOS is managed by AEMO. At quarterly intervals during the year, AEMO invites eligible contract holders to submit price-quantity offers for the provision of MOS for the

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<sup>5</sup> NGR, rule 364.

<sup>6</sup> An STTM facility operator can for example be the operator of an STTM pipeline or an STTM storage facility.

<sup>7</sup> NGR, rules 364 and 399.

next 'MOS period'. The MOS period is determined in the Procedures, and is currently set at three months.

In order to enable MOS providers to prepare submissions, AEMO must publish, no later than 40 business days before the start of the next MOS period, estimates of the maximum quantities of MOS it expects to be required for each STTM pipeline.<sup>8</sup> Separate estimates are prepared for 'increase MOS' (where additional gas needs to be supplied to the hub) and 'decrease MOS' (where excess gas needs to be withdrawn from the hub). AEMO must then publish a notice inviting submissions for MOS offers, no later than 40 business days before the start of the next MOS period. The date by which offers need to be submitted must be specified therein, being a date no later than 15 business days before the start of the MOS period.<sup>9</sup>

AEMO lists the various offers from lowest to highest prices and generates a 'MOS stack' accordingly.<sup>10</sup> The MOS stack needs to be published no later than ten business days before the next MOS period. Separate stacks are published for 'increase MOS' and 'decrease MOS'.<sup>11</sup> AEMO provides these stacks to each pipeline operator who, in turn, allocates any pipeline deviations to the MOS providers in accordance with the stack order (from the lowest offer price to the highest offer price). Pipeline operators then inform AEMO of all MOS gas allocations.

When a pipeline deviation occurs during the gas day and is allocated to a MOS provider, the MOS provider is paid in accordance with their MOS offer price (the 'MOS service price'). A MOS provider's market schedule is adjusted to account for the MOS allocation. In this way, any resulting deviations incurred by the MOS provider are exempt from deviation payments and charges. In addition to the MOS service price, AEMO pays or charges the MOS provider the 'MOS commodity charge' for the MOS allocation on the gas day. The MOS commodity charge is paid at the ex-ante market price two days after the gas day. The MOS provider can then choose to submit bids and offers for the gas it needs to replace, or run down its MOS gas allocation on the gas day.

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8 NGR, rule 397.

9 NGR, rule 398.

10 STTM Procedures, sections 5.5.1 and 5.5.2.

11 NGR, rule 401.

### **3 Details of the rule change request**

#### **3.1 Proponent's rule change request**

The rule change request proposes to:

- move certain provisions dealing with timing aspects of the MOS offering process from the NGR to the Procedures; and
- broaden the eligibility for MOS provision in the STTM from eligible contract holders to any STTM Shipper, provided there is an underlying agreement that allows this to occur.

The proponent's rule change request includes a proposed rule.

#### **3.2 Rationale for the rule change request**

In its rule change request, AEMO expresses concern over limited competition in the provision of MOS in the STTM.<sup>12</sup> As part of its request, AEMO has provided an overview of the number of participants offering MOS on the pipelines supplying the Adelaide, Sydney and Brisbane hubs in the period September 2010-May 2012.<sup>13</sup> The proponent notes that while the number of parties offering MOS at the Adelaide and Brisbane hubs has increased since market commencement, there have been no new entrants in the MOS market at the Sydney hub. Further, the proponent notes that the lack of competition resulted in a situation where only one MOS provider was available on the Eastern Gas Pipeline during the period September 2011-February 2012.<sup>14</sup>

According to AEMO, MOS pricing curves in the STTM to date show that when the number of MOS providers increases, there is downward pressure on the cost of MOS. This is a result of greater quantities of lower priced MOS being offered in the MOS stacks. Conversely, where competition in the provision of MOS decreases, there is an upward pressure on MOS prices due to less MOS being made available at low prices.<sup>15</sup>

The proponent argues that two specific areas of the current STTM design regarding MOS contribute to this lack of competition:

- the duration of the MOS period; and
- the limited category of eligible MOS providers as defined in the NGR.

These two points are at the core of the present rule change request.<sup>16</sup>

##### **3.2.1 The MOS period and timing aspects of the MOS offering process**

AEMO argues that the present three month MOS period set out in the Procedures contributes to a lack of competition for MOS provision for two reasons:<sup>17</sup>

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12 See rule change request, p.5.

13 Ibid., p.14.

14 Ibid., pp.5 and 14.

15 Ibid., p.12.

16 Ibid., p.5

1. some market participants have indicated that the current three month MOS period is too long to commit capacity, thus restricting participation in the MOS market; and
2. other participants, particularly those who have priced their MOS offers too high and are not frequently being allocated MOS, consider three months to be too long to be 'locked' into a particular MOS stack, without the ability to compete during this period.

In response to these issues, AEMO seeks to shorten the MOS period from three months to one month in order to enhance competition. It also argues that a shorter MOS period would allow MOS providers to better respond to market, operational and seasonal conditions closer to the MOS period and would therefore lead to more efficient pricing for MOS offers.<sup>18</sup>

The proponent argues that a reduction in the length of the MOS period will only be effective if timings of the MOS offering process are also reduced. In practical terms, AEMO argues that this would allow AEMO to automate the MOS offering process, which would make the shorter timings possible, leading to a more efficient overall process.<sup>19</sup>

In this rule change request AEMO proposes to move the provisions dealing with timing aspects of the MOS offering process from the NGR to the Procedures. This would then give AEMO the flexibility to modify these timings, subject to appropriate consultation (see also paragraph 3.3). Specifically, it concerns provisions related to:

- the timing of the publication by AEMO of a notice inviting MOS offer submissions;
- the date by which submissions for MOS offers are due; and
- the timing of the publication of MOS stacks by AEMO.

These provisions together are referred to as 'MOS process timings' in the remainder of this consultation paper.

The proponent provided the following rationale for moving the MOS process timings from the NGR to the Procedures:<sup>20</sup>

- Currently, the MOS period and MOS process timings are dealt with in separate regulatory instruments: the NGR (MOS process timings) and the Procedures (MOS period). However, AEMO considers these aspects are interdependent. That is, a change in the MOS period is likely to require a change to the MOS process timings in order to be effective and efficient. Therefore, the MOS period and MOS process timings should be dealt within the same regulatory instrument.
- Given that the MOS period, according to the proponent the more critical parameter, is currently dealt with in the Procedures, it is appropriate that the MOS process timings are also included in the Procedures.

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17 Ibid.

18 Ibid., p.9.

19 Ibid., p.6.

20 Ibid., p.8.

- Moving the MOS process timings to the Procedures would provide greater flexibility to make subsequent amendments based on operational experience. Currently, any amendments that are deemed necessary require both a rule change and a change to the Procedures. AEMO considers this to be inefficient use of the regulatory change processes and a duplication of administrative effort, which would increase the time required to implement changes.
- Moving the MOS process timings to the Procedures would provide the same level of regulatory certainty for participants as is currently delivered by including the arrangement in the NGR. This is because there is a formal change and consultation process for the Procedures established in the NGR.

### *Implementation*

AEMO has indicated that, if a rule were made to move MOS process timings from the NGR to the Procedures, it would then initiate an industry consultation on the length of the MOS period and the MOS process timings. Consultation would take place on the basis of a proposal to:

- reduce the MOS period to one month (currently three);
- bring the date by which submissions for MOS offers are due back to approximately five days ahead of the next MOS period (currently: 15 days);
- publish the MOS stacks hours after submissions have closed (currently: 10 days before the next MOS period).<sup>21</sup>

It is important to note that AEMO's proposed rule does not in any way bind the outcome of this subsequent procedural change by AEMO.

### **3.2.2 Eligibility of MOS provision**

The proponent argues that the current rules in relation to MOS provision contribute to the lack of competition for MOS by restricting the provision of MOS to eligible contract holders. AEMO argues that the current rules prevent shippers who may be able to provide MOS under a sub-contracted arrangement with an eligible contract holder ('MOS enabled trading right holders') from competing in the MOS market. Given it may not be possible in all circumstances for prospective MOS providers to negotiate a contract with a facility operator directly (for example, due to capacity constraints or other contractual limitations), a sub-contracted arrangement could provide an alternative means of entry in the MOS market.

The proponent therefore proposes to extend the eligibility for MOS provision to MOS enabled trading right holders.

AEMO also noted the following, additional reasons for this change:<sup>22</sup>

- on some pipelines, capacity is held by facility contract holders who may have access to facility services that support provision of MOS. However, where a facility contract holder chooses not to actively trade in the STTM, this capacity is unavailable for MOS provision. It is possible however, that this capacity could be

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<sup>21</sup> Ibid.

<sup>22</sup> Ibid., p.6.

made available for MOS if the rules would allow trading right holders under a subcontracting arrangement with these contract holders to offer MOS.<sup>23</sup>

- the proposal may also benefit potential shippers considering a long term investment in the expansion of storage capacity on a pipeline. The proposal would enable them to transfer the right to supply MOS under a commercial arrangement to (an)other trading participant(s), therefore reducing the risk profile associated with a long term commitment for storage services on a pipeline. The proposal would therefore support efficient investment in pipeline capacity and services.<sup>24</sup>

The proponent also observes that, under the current rules, it is possible for sub-contracted trading right holders to deliver gas in the ex-ante market or as contingency gas.<sup>25</sup> AEMO argues there is no reason why this should not similarly apply to the provision of MOS.

AEMO recognises that the proposed rule will not address the fact that a prospective MOS provider would, in practice, be dependent on an incumbent contract holder for agreeing to a sub-contracted arrangement for MOS provision. Whether such an arrangement could be put in place may also depend on the terms of the original facility contract and/or the willingness of contract holder. However, the proponent argues that there should not be a regulatory barrier preventing parties wishing to transfer capacity for the provision of MOS from doing so.

#### *Implementation*

The proposed rule would introduce an additional category of participant eligible to provide MOS. Therefore, if made, the proposed rule would necessitate a number of modifications to the Procedures and relevant systems in order to accommodate the rule change. AEMO has indicated that it will initiate a consultation process with market participants to develop a (facility) allocation process that provides sufficient clarity and certainty about participants' market, contractual and regulatory positions and which would be practical and workable without raising competition concerns. It is the AEMC's understanding this allocation process could be similar to that currently in place for gas delivery in the ex-ante market.

### **3.3 Issue for consideration regarding the MOS timing aspects of the request**

The proponent's primary objective regarding the MOS timing aspects is to reduce the length of the MOS period and MOS process timings. Although largely structured around this overall goal, the focus of the rule change request is to move the relevant provisions dealing with MOS process timings from the NGR to the Procedures. This would subsequently enable AEMO to deal with both the MOS period and MOS process timings under the STTM Procedures.

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23 Ibid.

24 Ibid., p.10.

25 Contingency gas is used to balance supply and demand at a hub when other mechanisms (including MOS) are unlikely to achieve a balance; NGR, rule 364.

Implementing the proposed rule change would therefore effectively remove the MOS process timings from the NGR and future AEMC consideration altogether. This consultation paper is primarily directed towards considering this regulatory issue, rather than addressing issues around the appropriate length of the MOS process timings.

### **3.4 Transitional rule**

AEMO proposes that, if a rule were made according to the proposed rule, there would be a transitional rule under which the current rules would continue to apply until relevant changes to the Procedures have been implemented.<sup>26</sup> No time frame relating to the required Procedure and IT changes has been provided by AEMO.

### **3.5 Implementation costs**

The proponent links costs associated with the rule change request to changes to IT-systems that AEMO would need to implement if a rule were made. AEMO estimates these costs to be up to \$80,000 (for changes related to MOS process timings) and \$160,000 (for changes related to broadening MOS eligibility), with an estimated \$40,000 of synergies if both changes were to be made.<sup>27</sup> The Commission notes these costs are however not directly related to the proposed rule itself. This is particularly the case for the cost of automation of the MOS offering process. This automation is envisaged to take place in conjunction with changes to the Procedures, aimed at shortening the MOS process timings. The proposed rule seeks to move these MOS process timings to the Procedures but does not deal with (subsequent) envisaged changes to the MOS period and MOS process timings (see also paragraph 3.3).

AEMO considers Trading Participants would also need to make changes to their systems, in order to submit MOS offers via the STTM systems (operated by AEMO) rather than via email. AEMO has indicated it aims to design the system changes in such a way that costs for industry players are kept to a minimum. For the same reason as set out above, the Commission considers these costs are however not directly associated with the proposed rule change itself.

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<sup>26</sup> See rule change request, p.22.

<sup>27</sup> Ibid., pp.11-13.

## 4 Assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the national gas objective (NGO) as set out under s. 23 of the National Gas Law (NGL):

“The objective of this Law is 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.”

In assessing the rule change request against the NGO, the Commission will inform its decision making by taking the following issues into consideration:

- the effect of the proposed rule on efficient investment in, and efficient operation and use of, gas services in the STTM;
- the effect of the proposed rule on administrative efficiency and operation of the STTM; and
- whether the proposed rule is consistent with the principles of good regulatory practice.

Specifically regarding the last point, the AEMC will have regard to whether, and to what extent, the rules should specify in advance (or codify) the criteria, methodologies and process to be applied by the market operator, compared to the level of discretion that the market operator should have over those matters in properly performing its functions. This requires finding a balance between an appropriate level of prescription in the rules, which would promote certainty and stability of regulatory outcomes as well as transparency of approach, with a level that provides the market operator with adequate flexibility and ability to accommodate particular circumstances in operational decision making.<sup>28</sup>

Furthermore, in assessing the rule change request, the Commission will consider the counterfactual of not making the proposed change to the rules.

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<sup>28</sup> See also, AEMC Consultation Paper - *Short term Trading Market - Market Schedule Variation* (GRC0010), 1 September 2011.

## 5 Issues for consultation

Taking into consideration the assessment framework and potential requirements to implement the proposed rule change, we have identified a number of issues for consultation that appear to be relevant to this rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed framework.

### 5.1 Rules to Procedures

#### 5.1.1 Nature of the rules and regulatory certainty

##### *Interdependence of provisions*

In its rule change request, AEMO seeks to remove the provisions dealing with MOS process timings from the NGR in order to include them in the Procedures. As mentioned, these provisions relate to the timing of publication of a notice inviting MOS offer submissions, the date by which submissions for MOS offers are due and the timing of publication of the MOS stacks.

According to the proponent, these timing provisions are interdependent with the MOS period and should therefore be included in, and determined by, the same regulatory instrument. Adjustments to these timings could then be dealt with in the same process rather than requiring a change of both the NGR and the Procedures, which the proponent argues is inefficient use of the regulatory change processes and a duplication of administrative effort. In addition, this would provide more flexibility to respond to possible changes in market conditions in the future that may lead to further adjustments of the MOS period and MOS process timings.

#### **Question 1      Interdependence of provisions**

**Are the timing aspects regarding the publication of a notice inviting submissions for MOS offers, the due date for submission of MOS offers and the publication of the MOS stacks interdependent with the MOS period to the degree that they need to be included in, and determined by, the same regulatory instrument? Please provide supporting arguments.**

##### *Rules versus Procedures*

The proponent notes that the length of the MOS period is currently determined by the Procedures. The proponent argues the MOS period is the more critical market parameter compared to the MOS process timings and that, therefore, these timing aspects should also be dealt with in the Procedures.

The provisions dealing with the MOS process timings that AEMO seeks to remove from the NGR in order to include them in the Procedures are part of a Division in the NGR that deals exclusively with MOS.<sup>29</sup>

This Division contains rules addressing:

- the MOS period (rule 396);
- the requirement for AEMO to publish estimates of required MOS (rule 397);
- the requirement for AEMO to publish a notice inviting submissions for MOS offers (rule 398);
- conditions and eligibility regarding MOS offers (rule 399);
- making increase offers and decrease offers (rule 400);
- the requirement for AEMO to determine MOS stacks and publish them (rule 401);
- additional requirements for MOS stacks (rule 402); and
- procurement or provision of MOS by AEMO (rule 403).

Some of these rules refer to the Procedures for further specification of certain aspects of MOS:

- the length of the MOS period (rule 396(1));
- requirements for the determination of MOS estimates (rule 397(3));
- additional requirements for a notice requesting MOS offers (rule 398(2));
- requirements for MOS increase offers and MOS decrease offers (rule 400(4));
- ordering of MOS stacks and the information they should contain (rule 401(1)); and
- additional requirements regarding the publication of MOS stacks (rule 401(2)).

These matters are dealt with in Chapter 5 of the Procedures.

At a general level, the NGR can be said to regulate the core elements regarding MOS, providing regulatory certainty about the essential rights and obligations on the part of the market operator and other market participants, while the Procedures specify operational matters.

This essentially reflects what was noted on the relationship between the NGR and the Procedures when the STTM was created:<sup>30</sup>

“Under the conceptual framework for the STTM legislation... the NGR will contain the detail of the market operation and the STTM procedures will include the more detailed process requirements involved in NGR obligations and address lower level technical and administrative matters.”

Within this framework, it is possible that the NGR sets some parameters that limit the extent to which detailed matters can be further specified in the Procedures. If a rule were made according to the proposed rule, it would for example be possible to include minimum or maximum time windows for the MOS process timings in the NGR, which

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<sup>29</sup> NGR, Part 20, Division 6.

<sup>30</sup> *Explanatory Material on the Draft Short Term Trading Market Rules, 2009, p.2.*

limit the extent to which these timings may be specified further in the Procedures.

**Question 2      Parameters in the NGR**

**If MOS process timings were to be moved to the Procedures, should the NGR set some parameters to limit the scope of changes to the MOS process timings, for example imposing minimum or maximum time windows? Please provide supporting arguments.**

*Regulatory certainty*

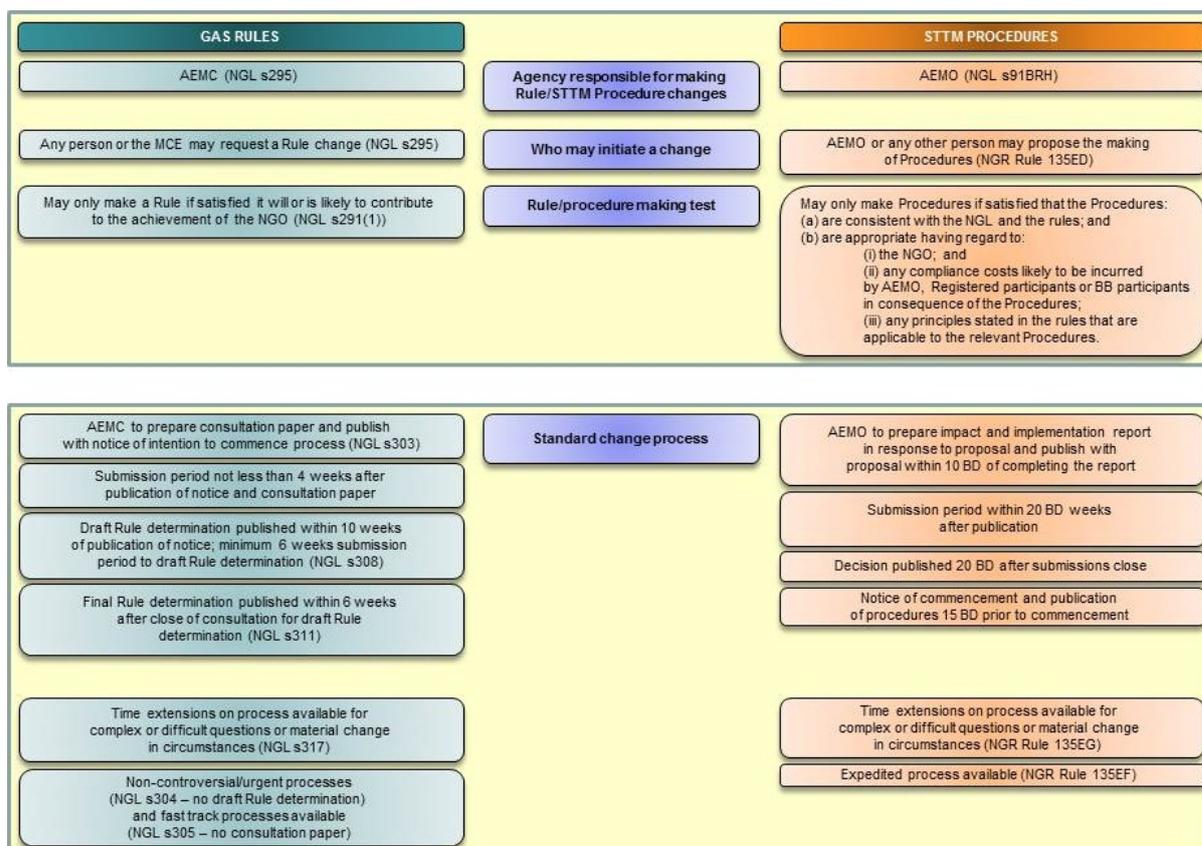
Further, the proponent argues that moving the MOS process timings to the Procedures would provide the same regulatory certainty to trading participants, as the Procedures are a formal regulatory instrument made by AEMO under the NGL.

Changes to rules in the NGR must go through a formal rule change process, set out in the NGL. In general, this includes minimum periods of public consultation and the preparation and publication of specified documentation which set out the detail of considerations made by the AEMC in determining the outcome of a rule change request. These requirements provide a high degree of transparency and thoroughness to the decision making process.

Proposed changes to the Procedures are also required to follow a detailed process which is set out in the NGR. The process also requires consultation, but is more truncated in terms of overall length of time to finalise a change.

For ease of comparison and reference, Figure 5.1 provides a schematic comparison of the change processes for the Rules and the Procedures.

**Figure 5.1 Comparison of change processes**



### Question 3 Appropriate regulatory instrument

Is it appropriate for the MOS process timings to be dealt with in the STTM Procedures framework? Are there any reasons or concerns that would lead to the conclusion that these timing provisions should remain in the NGR? Please provide supporting arguments.

#### 5.1.2 Publication of a notice inviting MOS offers

In its rule change request, AEMO proposes to delete rule 398 in its entirety from the NGR. Rule 398 essentially requires:

1. AEMO to publish a notice inviting eligible contract holders to submit offers for the provision of increase MOS and decrease MOS.
2. such a notice to be published no later than 40 business days before the start of a MOS period.
3. the specifications such a notice should contain (with reference to the Procedures to specify additional matters reasonably required for the purposes of AEMO's functions), and

4. the notice to include the date by which MOS offers must be submitted to AEMO, which must be a date no later than 15 business days before the start of the next MOS period.

As mentioned, it is the intention of the rule change proposal to include the timing of MOS offer submissions (under 4 in the above list) in the Procedures upon deletion from the NGR.

As regards the requirement to publish a notice inviting MOS offer submissions, the proponent considers there is no longer a need for it "as this becomes a more regular market activity".<sup>31</sup> In other words, it is part of the rule change request to eliminate altogether the current requirement for AEMO to publish a notice inviting submissions for MOS offers and containing information relevant for MOS offer submissions. Effectively, this means the rule change request proposes to delete items 1 to 3 in the above list from the NGR, without the intention to subsequently include these in the Procedures.

The rationale behind the publication of this notice is to inform the market about an upcoming MOS offering process, provide relevant information and invite market participants to make commercial decisions whether or not to submit an offer. As such, it serves as a 'trigger' to the market. Even in a scenario where the MOS period may be shortened and the MOS offering process may become more automatic and standardised, the publication of a notification in some form at the beginning of the MOS offering process and detailing relevant information about each particular MOS offering process could still have its merit.

**Question 4      Deletion of the requirement for AEMO to publish a notice inviting MOS offers**

**Is it appropriate to eliminate the requirement for AEMO to publish a notice inviting MOS offer submissions and the specification of the information such a notice should contain?**

## **5.2      Eligible MOS providers**

According to the proponent, competition in the provision of MOS has been limited, with only one MOS provider on some of the STTM pipelines during certain MOS periods.<sup>32</sup> AEMO's overview of the number of participants offering MOS on the pipelines supplying the Adelaide, Sydney and Brisbane hubs details that the minimum number of MOS providers for the mentioned pipelines varied from 1 to 3, while the maximum number of MOS providers varied from 3 to 5. AEMO claims the current rules regarding eligibility of MOS providers, which only allow MOS provision by 'eligible contract holders', contribute to this perceived lack of competition.

AEMO proposes to broaden the eligibility for MOS provision from eligible contract holders to any shipper that has an underlying agreement that allows this to occur. MOS

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<sup>31</sup> See rule change request, p. 5.

<sup>32</sup> See rule change request, p. 14.

could then also be provided by MOS enabled trading right holders, in addition to the current eligible contract holders. As this would broaden the group of potential MOS providers, according to the proponent, this could increase competition in MOS provision.

The proponent also argues that allowing MOS enabled trading right holders to supply MOS could open up capacity for the provision of MOS which may currently not be available if the contract holder chooses not to trade in the STTM. In other words, the rule change proposal could result in an increase in MOS liquidity.

Further, AEMO observes that under the current rules, it is possible for trading right holders to provide gas in the ex-ante market or as contingency gas under a subcontracted arrangement with a facility contract holder. The proponent argues there is no reason why this approach should not also apply to the provision of MOS.

**Question 5      Eligible MOS providers**

- (a) Do you agree that trading right holders with an appropriate underlying agreement should be allowed to offer MOS in the STTM? Please provide supporting arguments.**
- (b) Do you agree that broadening the eligibility for MOS provision from eligible contract holders to any shipper that has an underlying agreement that allows this to occur could enhance competition and increase liquidity of MOS in the STTM? Please provide supporting arguments. The Commission for example welcomes information that provides insight in how many (potential) MOS providers there are currently and how many (potential) MOS providers may be able to enter the market if eligibility for MOS provision was broadened according to the proposed rule.**
- (c) Trading right holders are currently allowed to provide gas in the ex-ante market or as contingency gas. Is there a reason why MOS provision should be treated differently? Please provide supporting arguments.**

## **6 Lodging a submission**

The Commission has published a notice under s. 303 of the NGL for this rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 11 October 2012 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change proposals.<sup>33</sup> The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Sjoerd Ammerlaan on (02) 8296 7800.

### **6.1 Lodging a submission electronically**

Electronic submissions must be lodged online via the Commission's website, [www.aemc.gov.au](http://www.aemc.gov.au), using the "lodge a submission" function and selecting the project reference code "GRC0016". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

### **6.2 Lodging a submission by mail**

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: GRC0016.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within three business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

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<sup>33</sup> This guideline is available on the Commission's website.

## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
eligible contract holders	a contract holder in respect of a facility contract under which a registered facility service is provided by means of an STTM pipeline, as defined in rule 364 of the NGR
MOS	market operator service, as defined in rule 364 of the NGR
MOS process timings	<ul style="list-style-type: none"><li>- the timing of the publication by AEMO of a notice inviting MOS offer submissions (rule 398(1))</li><li>- the date by which submissions for MOS offers are due (rule 398(2))</li><li>- the timing of the publication of MOS stacks by AEMO (rule 401(2))</li></ul>
MOS enabled trading right holders	trading right holders who hold a contract with an eligible contract holder that enables them to provide MOS
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
Procedures	STTM Procedures
Proponent	See AEMO
STTM	short term trading market, as defined in rule 364 of the NGR
STTM-CF	STTM Consultative Forum