AEMC

INFORMATION

Brisbane hub participant compensation fund

Final rule determination 28 February 2013

The AEMC has made a rule that increases the dollar amount for the participant compensation fund in relation to the short term trading market (STTM) Brisbane hub. By making this rule, trading participants in the STTM will be exposed to less financial risk and this may lead to a small reduction in costs.

About the rule

The rule increases the dollar amount of the Brisbane hub participant compensation fund (PCF) from $100,000 to $450,000. It also increases the amount that can be collected from market participants in a year from $50,000 to $225,000.

Increasing the PCF amount decreases the risk that trading participants will not be adequately compensated for costs incurred as a result of scheduling errors in the STTM. Reducing the financial risk faced by trading participants may result in marginally lower costs, which is likely to benefit consumers of natural gas in terms of price.

The rule commences on 7 March 2013. This will allow time for AEMO to apply the new PCF amount, with appropriate notice to market participants, from 1 July 2013.

Details of the rule change request

On 10 August 2012 the Australian Energy Market Operator (AEMO) submitted a rule change request to increase the dollar amount for the STTM Brisbane PCF.

AEMO considered that the amount specified for the Brisbane hub PCF in the current National Gas Rules is too small as it does not reflect the size of the Brisbane market.

The current PCF amount was based on forecasts of the distribution connected retail load and did not include the transmission connected industrial load. Because total gas withdrawals for all Brisbane hub users (that is, distribution connected and transmission connected users) are almost five times higher than originally forecast, there is potential for scheduling error costs to be greater than the amount covered by the PCF.

AEMO sought to amend the rules so that the Brisbane hub PCF amount is increased from $100,000 to $450,000, which AEMO believes better reflects the size of the Brisbane market. It also sought to increase the amount that could be collected in a year from participants to fund the PCF from $50,000 to $225,000.

Rule making process

The AEMC assessed the rule change request under an expedited process, which is possible under the National Gas Law for rule changes that are considered to be non-controversial.

The AEMC requested written notification from any stakeholder who objected to the rule being assessed under the expedited process. No such objections were received and accordingly, the AEMC proceeded with the expedited process. Under this process, no draft determination is provided.

Background

The short term trading market (STTM) is the trading market for natural gas at the wholesale level, currently operating at established hubs in Adelaide, Brisbane and Sydney. The STTM is a day-ahead trading market where shippers submit offers to supply gas to the hub and users submit bids to withdraw gas from the hub.

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The rule decreases the risk that trading participants in the STTM Brisbane hub will not be adequately compensated for costs incurred as a result of scheduling error.

On the basis of bids and offers, AEMO determines a market price and draws up market schedules detailing the quantity of gas to be flowed the next day. Typically, the quantity of gas that shippers and users actually supply to or withdraw from the hub on the gas day itself differs from the quantity nominated and scheduled for that day.

If this difference can't be made-up by normal STTM mechanisms, then AEMO can call on contingency gas to safeguard the continuity of supply. In such circumstances, AEMO schedules gas from trading participants who have made bids and offers for contingency gas.

If AEMO makes an error in scheduling (either in the day-ahead market or for contingency gas) which results in a trading participant being scheduled out of merit order, then the trading participant is entitled to be compensated for losses incurred.

Compensation is paid out by AEMO from a participant compensation fund (PCF) and the total amount payable is capped by the balance of the PCF. The PCF is a co-insurance scheme which is funded by trading participants and is managed by AEMO. There are separate PCFs established for the Adelaide, Brisbane and Sydney hubs.

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