

DRAFT NGR AMENDMENTS – STTM RULES INFORMATION SESSION

August 2009

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STTM DESIGN – THE HISTORY AND JOURNEY

- 2004/2005 – MCE set initial policy direction for gas market development
- November 2005 – MCE established GMLG to develop National Gas Market Development Plan, consistent with MCE set Principles
- October 2006 – MCE endorsed GMLG Development Plan and reconvened GMLG oversee design of STTM
- December 2007 – GMLG recommended high level design (ICF) to MCE
- April 2008 – MCE endorsed high level design (ICF) and requested GMLG develop detailed design and oversee implementation of STTM
- April 2009 – GMLG endorsed STTM Detailed Market Design
- 1 July 2009 – AEMO assumed responsibility for STTM implementation
- 10 July 2009 – MCE approved the STTM Detailed Market Design

BASIS FOR STTM DETAILED MARKET DESIGN

- The augmented MCE principles for gas market development, starting from ICF high level design for detailed development
- Preservation of contract rights in SA and NSW (not the Victorian approach)
- Shippers must have haulage contracts or contractual right to deliver gas to the Hub
- Users must have access agreements that allow withdrawal of gas from the Hub
- A delivery based model at city gate hubs (MCE's Allen report)
- AEMO role in STTM:
 - Operates (schedules and settles) market only, does not operate pipelines or networks
 - No role in system security (except when scheduling of contingency gas)
 - No role in gas quality
- STTM Detailed Market Design (11 May 2009) – www.aemo.com.au

LEGAL INSTRUMENTS

- Legal Instruments to establish the STTM include:
 - National Gas Law amendments: enacted by SA Parliament, as lead legislator.
 - National Gas Rules amendments:
 - > Initial amendments - made by SA Minister, following approval by the Ministerial Council on Energy (MCE)
 - > Subsequent amendments – Australian Energy Market Commission (AEMC) rule change process
 - STTM Procedures: made by AEMO, in accordance with law and rules.

NGR amendments

- Deals with operational matters for STTM
- “What”, “who” and “by when”.

NGR Amendments



- The STTM rules will be located in a new Part in the NGR (Part 20)
 - Definitions contained in Part 20 Division 1 apply to the STTM only.
- General Provisions of the NGR (predominately Part 15) applies to the STTM:
 - Where they refer to or are amended to include STTM (i.e. registration provision, procedures process, AEMO fees)
 - Subject to amendments specified in the STTM rules (e.g. Dispute Resolution Process)

- NGR amendments define the Adelaide and Sydney hubs.
- The hubs define where the STTM operates.
 - Comprises the Custody Transfer Points (CTP) that are connected to the STTM distribution system. (That is, the STTM does not operate upstream of the STTM distribution system.)
 - The CTPs for a hub are to be listed in the STTM Procedures.
- Adelaide hub (rule 369):
 - STTM distribution system defined in the gas zone code 2101 in the SA Retail Market Procedures.
- Sydney hub (rule 370):
 - STTM distribution system defined with reference to the Wilton-Newcastle Network Section and Wilton-Wollongong Network Section, as defined in the applicable access arrangement (Jemena Gas Networks - NSW).

REGISTERED PARTICIPANTS – PART 15A AND DIVISION 3

- Existing Part 15A of NGR to apply to STTM
 - Part 15A sets out requirements for registration, exemption from registration and revocation.
 - New rule (r135ABA) to be inserted into Part 15A to define registrable capacities for the STTM.
 - Registrable capacities in STTM are STTM Shippers [r135ABA(1)] and STTM Users [r135ABA(2)].
 - Shippers with pipeline haulage contracts (or trading rights) and users with distribution arrangement at a hub participate in the STTM as ‘trading participants’.
 - A person who participates in the STTM must register for each STTM hub in each applicable registrable capacity.
- NGR amendments Division 3 – contains additional requirements for registration of trading participants.
- AEMO is required to keep a register of registered participants and persons exempted from registration.

- STTM facility operators and STTM distributors not required to be registered.
- Rules impose obligations to provide information to AEMO, for example:
 - the name, ABN, contact details, and type of facility
 - default capacity (GJ) to be used and maximum capacity (if none provided, AEMO to determine)
 - Benchmark information to be used when deciding whether to call contingency gas (Division 8)
 - Other information reasonably required, as specified in STTM Procedures.
- Time limits for the provision of this information [r377(1)(a)&(b) and r377(2)(a)&(b)]
- If satisfied that the information complies with the requirements of the rules, AEMO will register the information (r378) and updated information (r379).
- AEMO will publish a list of STTM facilities and STTM distribution systems about which it has registered information.

- The rules set out requirements for a contract holder to provide information to AEMO for each facility contract and distribution contract to which it is a party (r381).
- AEMO is required to confirm the information provided by a contract holder with the contract issuer (r383). If information is confirmed by contract issuer:
 - AEMO is to register the service and information under the relevant contract (r384);
 - AEMO request contract holder provide trading right information (r385);
 - > If meets requirements, AEMO must register trading right to the contract holder.
 - Where contract holder grants trading rights to another trading participant, contract holder may provide the details of the trading right to AEMO (r386).
 - > If meets requirements, AEMO must register the “additional trading right”.
- Allocation agent to register with AEMO (subdivision 4).
- Contract holder must notify AEMO of changes to registered services, trading rights and allocation agents (subdivision 5).

- Service provided by STTM Shippers to balance pipeline deviations.
- The rules set out requirements for provision of MOS for each MOS period:
 - No later than 40 BD before MOS period – AEMO publishes MOS estimate (r399) and seeks MOS increase and MOS decrease offers for each STTM pipeline (r400)
 - MOS offers must be submitted no later than 15 BD before a MOS period (r400)
 - MOS offers must comply with certain conditions (r401 and r402)
 - AEMO must publish, no later than 10 BD before MOS period, a MOS increase stack and a MOS decrease stack for the MOS period (r403 and r404).
- MOS cost cap - \$50/GJ – maximum price of MOS.
- AEMO MOS procurement – where ongoing shortfall of MOS, rules allow AEMO to procure MOS in accordance with r405
 - If AEMO procures MOS – rules for STTM shippers apply (except registration).

- Sets out the day to day operation of the market – requirements for offers, bids, schedules (specific requirements – r407) and prices (subdivision 2).
- Offers and bids from Trading Participants for a gas day:
 - Ex ante offers: by STTM Shippers to deliver (sell) gas to hub (r409)
 - Ex ante bids: by STTM Shippers or STTM Users to withdraw (buy) gas at hub at a price (r410)
 - Price taker bids: by STTM Users to withdraw gas at any ex ante market price (i.e. effectively uncontrollable load) (r411)
 - Rules allow multiple day ex ante offers and ex ante bids (r414)
 - Minimum Market Price (\$0/GJ) and Market Price Cap (\$400/GJ) apply.
- Timing for submitting ex ante offers, ex ante bids & price taker bids (r412) for:
 - Preliminary schedules: 3 days and 2 days before the relevant gas day – by 2:00pm
 - Ex ante market schedule: 1 day before the relevant gas day – by 12:00 noon.

- Capacity Information from STTM facility operator (r415):
 - Expected operational capacity for each gas day provided by 11:00am on D-3, D-2 and D-1
 - If not provided, registered default capacity used
 - AEMO publishes capacity information for each gas day on D-3, D-2 and D-1.
- Schedules published by AEMO (r416-r418):
 - Provisional schedules: By 3:00pm on D-3 and D-2 for gas day D
 - Ex ante market schedule: By 1:00pm on D-1 for gas day D
 - If AEMO is unable to issue ex ante market schedule: (1) use a provisional schedule and declare administered price cap state (r427); or (2) if no provisional schedule, declare market administered scheduling state (r429).
- STTM Shipper may submit market schedule variations (r424) – after AEMO issues ex ante market schedule for a gas day until 5:00pm on D+3.

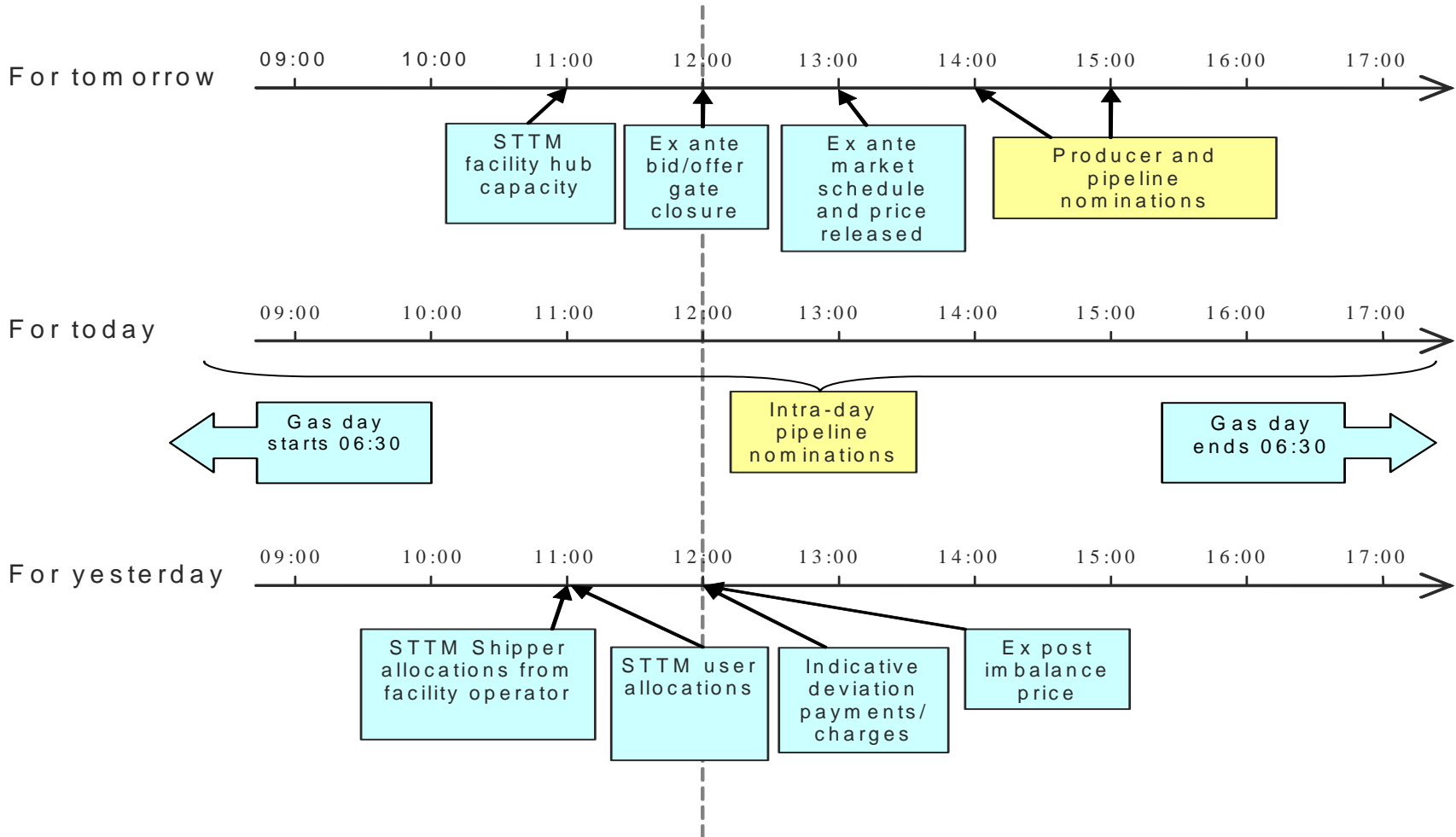
- Allocations (subdivision 3)
 - By 11:00am each gas day: allocation agent for the STTM facility (e.g. the facility operator) must provide an allocation notice for the prior gas day (r420):
 - Allocation of gas delivered to / withdrawn from the hub (backhaul) for each registered facility service
 - Quantity of MOS allocated to each registered facility service
 - Quantity of Overrun MOS allocated to each registered facility service.
 - By 11:00am each gas day: allocation agent for a registered facility service (e.g. contract holder), must provide the above information for each registered trading right for prior gas day (r421).
 - Allocation agent must provide updates of allocation notice for each gas day in a billing period for use in settlements (consistent with timeframes in STTM Procedures).
 - In order to preserve reporting/settlement timelines, AEMO may determine allocations where no valid allocation notice is provided (r420 and r421).
 - By 11:00am each gas day: AEMO (as operator of retail gas market) provides STTM distribution system allocations for each registered distribution service (r423).

- Ex post imbalance price (subdivision 4)
 - Determined after the gas day (using ex ante offers and bids and facility allocations – not forecast hub capacity) to establish a price that reflects the net impact of deviations on the gas day.
 - AEMO publishes by 12 noon on each gas day, for preceding gas day.
 - Ex post imbalance price is one input used in the settlement process for determining deviation prices for each STTM shipper and STTM user.
- Market Administration States (subdivision 6)
 - The rules set the circumstances and actions to be taken where there may be an event that prevents the normal operation of the STTM.
 - Schedules and/or prices may be administered under these events (subdivision 6).
 - Cumulative Price Threshold - \$440 (1.1*MPC), CPT horizon – 7 gas days, Administered Price Cap - \$40/GJ.

MARKET OPERATIONS – DIVISION 7

summary

A day in the life of the STTM



- CG mechanism attempts to balance supply and withdrawals at the hub when both the ex ante market and intra-day pipeline flow variations are not able to satisfy supply and demand requirements for a gas day.
- CG bids and offers (subdivision 1)
 - CG offer: Trading Participant offers to increase quantity of gas delivered or decrease quantity of gas withdrawn from hub, at a price (r434).
 - CG bids: Trading Participant bid to decrease quantity of gas delivered or increase quantity of gas withdrawn from a hub, at a price (r435).
 - CG bids and offers for a gas day must be submitted by 6pm the prior day (r434).
 - Minimum Market Price (\$0/GJ) and Market Price Cap (\$400/GJ) apply.
 - Rules allow multiple day CG bids and offers (r437).

Contingency Gas Process (subdivision 2 and 3)

CG Trigger Event - Trading Participant, STTM distributor or STTM facility operator advises AEMO or AEMO determines a CG Trigger Event has occurred (r438).

- Triggers a process to determine whether AEMO should schedule CG.
- AEMO publishes notice of a CG Trigger Event (r439).

CG assessment conference: STTM distributor and STTM facility operator provide AEMO information on operational requirements (i.e. quantity/location/time) of CG required for current and subsequent days (r440).

If sufficient time, AEMO calls an industry conference (r441).

Based on information provided (including registered benchmark information), AEMO to determine if CG is required – the “contingency gas requirement” (r442).

If CG required, AEMO creates CG offer stack or CG bid stack (in merit order).

If CG required, AEMO implements confirmation process for CG bids or CG offers (r443) and schedules CG (r444)

- Price step in a stack can be skipped if unavailable or does not address requirement.

- Participant Compensation Fund (PCF) is a co-insurance scheme for trading participants to manage exposure to an AEMO scheduling error.
- PCF regime for STTM similar to Victorian wholesale gas market and NEM
 - Two funds: \$670K for Sydney hub and \$330K for Adelaide hub (r450).
 - At any time, the amount of compensation payments is limited to the balance of the fund (i.e. the note in r455 will be deleted).
- Rules set out :
 - Process for establishing whether a scheduling error has occurred – AEMO assessment or determined by Dispute Resolution Panel (r452)
 - Specific circumstances where a Trading Participant is entitled to compensation (r454)
 - Amount of compensation to be payable (r455)

Market Settlement rules set requirement for AEMO to manage the billing and settlement of the STTM with Trading Participants (subdivision 2).

Settlement amounts for billing period (calendar month) include:

- Trading Participant's trading amount for each gas day in billing period (r459)
 - > Ex ante market @ ex ante price
 - > Capacity payments @ capacity price
 - > MOS gas @ price step price + MOS gas @ D+2 ex ante price + Overrun MOS @ overrun MOS price
 - > Deviation penalties (max of ex ante price/ex post imbalance price/CG high price and tables in r460)
 - > Variation penalties (based on ex ante market price and tables in r461)
 - > CG gas @ CG price (high or low), deviations penalties apply.
- Settlement shortfall charge or surplus payment, participant fees (determined per Part 15B), PCF contributions and payment of 'administered state' claims (r463 and r464).

Prudential Requirements - Rules set out requirement for the provision of security, relative to estimated exposure to the market (subdivision 3).

- Title to Gas passes at each Custody Transfer Point (r419)
 - From the Trading Participant (STTM Shipper) who delivers gas to the hub.
 - To the Trading Participant (STTM User) who withdraws gas from the hub.
- Gas Quality (r419)
 - Each STTM Shipper must ensure that gas delivered by it to the hub complies with gas quality specification (as set out in AS-4564 or access arrangement)
 - > Note: STTM Shippers may pass on this obligation to producers.
 - Rule 419 will be made a conduct provision – allows persons (including AER) to bring proceedings for breach.
 - Rule 419(4) and (5) are NSW specific – address gas monitoring and testing obligations that currently exist.

- Market Reviews (Division 11)
 - During GMLG process a number of areas were identified for review.
- Market Audit and Monitoring (Division 12)
 - Annual Market Audit of STTM by qualified auditor (r494).
 - AER monitoring of STTM trading activities (r495)
 - > Ensure trading activities in accordance with rules
 - > Identify and report significant price variations (AER guidelines to set out what constitutes a “significant price variation”).
- Dispute Resolution (Division 13)
 - Part 15C applies, subject to:
 - > additional eligible parties (r496)
 - > amended timeframes (r497).
- Transitional (Division 14) – to be completed.

QUESTIONS

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