

## **Gas Market Leaders Group Synopsis of Tenth Meeting – 17 December 2007**

The tenth meeting of the Gas Market Leaders Group (GMLG) was held in Melbourne on 17 December 2007. Major issues considered at the meeting were as follows.

### **1. MCE Decisions**

The GMLG welcomed the Ministerial Council on Energy (MCE) 13 December decision on implementation arrangements to establish the Australian Energy Market Operator (AEMO) by June 2009. The GMLG noted the MCE decision was largely consistent with the draft implementation plan developed by the Market Operator Working Group (MOWG) but that key decisions were still pending in relation to the ownership of AEMO.

The GMLG noted that the definition of board independence recommended by SCO and agreed by MCE was different to the one recommended by the Market Operator Working Group (MOWG) and supported by the GMLG. The MCE decision applies the ASX definition of independence to the Board as a whole, while that recommended by MOWG applies only to those directors specifically classed as independent. The material impact is to reduce the maximum number of directors with recent industry experience (i.e. having worked in the industry (including in a major energy user) within the last three years) to four, rather than six as proposed.

The GMLG re-affirmed its view that the AEMO Board requires a high level of current energy sector expertise to discharge its duties effectively. The GMLG remains firmly of the view that the AEMO Board should have a majority of directors with current industry experience. However, as a compromise position, the GMLG is supportive of the MOWG recommendation for a minimum of 3 and a maximum of 6 non-executive directors having such industry experience.

The GMLG noted that MCE decided that the Bulletin Board head of power would form part of the initial National Gas Law (NGL) expected to be introduced into the South Australian parliament in the first quarter of 2008. Commencement of the BB requires the NGL to be applied in all jurisdictions.

### **2. Bulletin Board (BB)**

The Bulletin Board Working Group (BBWG) reported that the BB development is on track, with the IT build scheduled for completion by May 2008. The only critical issue for initiating operation of the BB by its scheduled date of mid-2008 is the enactment of the legislation.

Approximately 150-200 man days have been contributed by industry to develop the BB to date, though this is considered to be a conservative estimate.

Industry consultation on the draft Rules is scheduled to commence mid January until end February 2008.

A demonstration of the BB was given and Members were impressed with its advanced stage of development.

### 3. Short Term Trading Market (STTM)

The GMLG considered a report from ICF International who were contracted to provide advice on the detailed design of the STTM. ICF provided a presentation on their report, which concluded that a short term trading market for gas can be developed to meet the augmented MCE Gas Market Development Principles and STTM outcomes proposed by the GMLG. The GMLG also considered supporting advice from the STTM Working Group (STTMWG).

Members unanimously agreed to recommend to SCO/MCE a “Go” decision for the detailed design and establishment of a STTM.

In recommending a Go decision the GMLG generally supported the ICF proposals, though there are numerous detail design issues to be worked through and concerns with some elements. However, these are not considered to be showstoppers, but rather areas for further analysis.

In particular, issues that need further consideration and development include;  
Pricing mechanism and variation charges

- The need for incentives for participants to forecast accurately ahead of time, balanced against penalising those who 'do the right thing' on the day to help system balance, whilst avoiding gaming concerns.
- Market price cap (VoLL) will need to be determined.
- Equitable allocation of charges across different customer sectors.

#### *Market operator operations in the STTM*

- The proposed STTM over recovers and then redistributes funds to all parties in the market even if they act inappropriately, which might dilute incentives.
- Commerciality of Market Operator decisions in obtaining contracts/ services and the processes to manage them, including lead time to obtain the services.
- Size and scope of assets (contracts) required by the Market Operator.
- Costs to achieve commercial operation.

The GMLG agreed that prerequisites for the STTM on Day One should include:

- Pipeline services and information:
  - Re-nomination capability offered to participants.
  - Introduction of new As Available contracts and delivery point access i.e. 'secondary firm' to assist delivery to the hub, bolted onto existing long haul contracts.
  - Backhaul facility from the Hub to be bolted onto haulage contracts.
  - Standardisation of Gas days and nomination times.
- Market Operator services:
  - Park and loan, line-pack, delivery capability.

- If these cannot be contracted, facilities to deliver them may need to be developed.
- Electronic bulletin board – a substantial enhancement of the BB currently being established.
- Alignment of settlement data (pipelines/ market and distributors)
  - Consistent allocations / metering through the chain.
- An effective prudential management framework which minimises counterparty risk.

It was noted that the need to remove price differentials between receipt points in the Sydney network, to improve liquidity and reduce complexity in designing a work-around in the STTM clearing engine, will need to be brought to the attention of IPART/ AER. A work stream would need to be established to ensure that alignment between STTM design and tariff changes occurs. The changes may also impact current contracts that exist between users and the networks which will need to be reviewed.

The GMLG agreed that it was highly desirable to set a commitment to review the STTM after two years of operation and determine whether any actions need to be taken to remove barriers.

The GMLG recommended that the STTM be introduced outside of and well before the start of a winter period to ensure any teething problems are addressed and participants have sufficient time to become familiar with the market before the system peak.

The GMLG requested the STTMWG to develop a STTM Implementation Project Team proposal, with a timeline and budget by the end of January 2008.

The GMLG also requested SCO to give consideration to the funding of the STTM Implementation phase as a matter of some urgency given the complexity of the task.

It was noted that the STTMWG estimated that approximately 250-350 man days have been contributed by industry to develop the STTM functional design, though this is considered to be a highly conservative figure.