



4 August 2009

Attention: Ms Michelle Croker  
Gas Market Development Section  
National Energy Market Branch  
Department of Resources, Energy and Tourism  
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Dear Ms Croker,

**Re: Release of National Gas (Short Term Trading Market) Amendment Rules 2009**

I refer to the consultation process for the above document and I enclose TRUenergy's response to the invitation made by the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO) for written submissions.

As you will be aware, TRUenergy is currently a second tier retailer in both of the proposed Hub locations for the Short Term Trading Market (STTM). In addition, TRUenergy's interest in the STTM aspect of the MCE's gas market reform program is further reinforced by our gas generation assets in NSW and SA (albeit, these assets are upstream of the proposed Hubs). Finally, given that TRUenergy relies on a portfolio approach for the trans-State management of its gas supply contracts, the operation of proposed STTM unavoidably will be tied to the way that we deploy gas to service customer loads in neighbouring jurisdictions.

Because of the activities described above and our wider interests in other areas of the gas industry more generally, TRUenergy has actively participated in the development of the STTM from the early inception of the project. In more recent times, TRUenergy has represented the National Generator Forum as a member of the STTM Working Group, the STTM Steering Committee (now defunct) and the STTM legal Working Group.

It is with these credentials that TRUenergy makes the enclosed comments to the exposure draft for the proposed STTM Rules.

As a prelude to the detailed matters contained in the attachment to this letter, TRUenergy's principal observation is that the STTM will deliver a radically different way in which all participating gas companies will conduct their business. The nature of the broad market constructs that were originally proposed by ICF and the supporting paradigms that are explained in more detail in the exposure draft underscore the depth of changes that are required for both AEMO (as the clearing house) and for companies such as TRUenergy as a potential market participant.

For all participating organisations, these profound changes will most certainly mean increased and new commercial risks for which there is no historic precedence and for which industry's understanding is theoretical at best. With this backdrop as the commercial context for the STTM, TRUenergy believes that there is a compelling justification for the claim that the current proposal to start the STTM at the commencement of the peak season next year is neither optimal nor desirable. Other than a tenacious insistence by decision makers not to move a date that was set in the early days of the market's development, there appears to be no value proposition for its retention given the heightened likelihood of significant wealth transfer that may result from commissioning an entirely new market at the start of a peak period.

Neither is TRUenergy persuaded by the proposition that industry's experience from the "market trial" (which forms part of AEMO's rollout program for pre-market start) will be adequate in mitigating peak period risk in a new and untested market. TRUenergy is of the view that the commercial environment for the market trial is (of necessity) so artificial that it will add little to industry's understanding of the real risks from a live market.

Whilst TRUenergy acknowledges that the market start date is not an explicit issue in the exposure draft, we nevertheless request that this aspect of the STTM be reviewed by SCO. Specifically, TRUenergy suggests that consideration be given to commencing the new market in the fourth quarter 2010 (i.e. at the start of the off-season). Adoption of a later start date will permit AEMO, and participating companies to bed-in their newly commissioned IT systems and business processes in a non peak period of the market. Moreover, and perhaps more importantly, a delayed start date will enable those commercial entities that must manage the attendant new market risks time to understand these risks before the start of winter 2011.

Hopefully, the content of the attachment is self explanatory. However, I can be contacted on telephone (03) 8628 4518 should the Department seek further elaboration on any of the matters that have been identified.

Yours truly,

Don Vigilante  
Manager Market Development (Gas)

**STTM Rules – Exposure Draft for Public Consultation  
TRUenergy Comments**

Item	Topic	Rule Number	Comment
1.	Registrable capacities	135ABA	The term “Registrable capacities” when used to refer to the categories in which a person may participate in the STTM is unfortunate since it can (and likely will) be confused with the pipeline or network capacity that is registered with AEMO. Notwithstanding that this term is already used in Division 1, TRUenergy suggests that consideration should be given to amending this term to “Registrable categories” or some other, less confusing term.
2.	Revocation of registration	135AH	TRUenergy assumes that the instruction “Omit the Exception, insert” refers only to the lead-in paragraph before subclause (4) (i.e. the change that is contemplated in the exposure draft is the addition at the end of the lead-in paragraph the words “or rule 482(10)”). TRUenergy is of the view that Sub-clause (4) should be retained as it obligates AEMO to give written reasons for their decision.
3.	STTM facility information	Division 4 (generally)	Consideration should be given to obligating AEMO to publish some of the registration details provided by the STTM facility operator (i.e. perhaps 377 (1) (d), (e) and (f)). Publication of this more general registration information will enable participant’s in house market models to better mimic the dispatch engine used by AEMO (without compromising commercial confidentiality).
4.	Confirmation of information	383(2)(b)	TRUenergy suggests that the contract issuer should be obligated (as a Rule condition) to give reasons for a rejection of information provided by a contract holder and AEMO should be obligated to pass-on this data under Rule 384 (2)
5.	Additional trading Rights	386	Consideration should be given in the registration process for an additional trading right by the contract holder to be confirmed by the Trading Participant as the counterparty to the registration process before Rule 387

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			occurs
6.	Market Operator Service	Division 6 (generally)	TRUenergy understands that the market's funding for MOS will be on a pay-as-bid basis. Has this fundamental aspect of MOS been codified in the Rules?
7.	MOS estimate	399	TRUenergy suggests that the word "best" should be inserted before "estimate" and "at the time" after this word
8.	Conditions for submission of MOS increase offers and MOS decrease Offers	401 (3).	<p>The ability of the eligible contract holder to satisfy the currently proposed obligation (i.e. to "ensure" that the conditions of sub rule 2 are met) will be limited at best. Many aspects of the underpinning service will be beyond the control of the eligible contract holder (i.e. these will be limited by legacy contract terms, conditions of the pipeline due to maintenance - or lack of maintenance, FM conditions etc). TRUenergy suggests that consideration should be given to limiting the regulatory obligations of the contract holder in this clause to what can be reasonably managed.</p> <p>Also, this clause appears to prohibit the swapping of MOS capacity and ex ante haulage capacity on a daily basis. This means that MOS providers will need to contract twice the capacity that is nominated in MOS Offers/Bids (because park/loan gas won't be able to be repaid until D+2). This arrangement is likely to result in the inefficient deployment of existing pipeline capacity and it will make the funding of unnecessary future pipeline augmentation more probable (ultimately by AEMO under Rule 405 if industry is unwilling to invest). Notwithstanding the recent decision by the STTM WG to not pursue alternatives for inter-day MOS, TRUenergy requests that further consideration be given to relaxing the "firmness" of MOS capacity across D+0 &amp; D+1</p>
9.	Procurement or provision of MOS by AEMO	405 (4) (b).	If AEMO does invest in augmented pipeline assets (as is contemplated by this Rule) there seems little point to continuing the conditions of Rule 401 for that new MOS capacity. The risk that AEMO faces under the current

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			<p>proposal is that that AEMO's investment may become stranded due to a subsequent lower Offers /Bids from industry (during the amortisation period of the new investment). Even if the pricing mechanism for this new capacity under Rule 403 (1) (3) results in zero priced Offer/Bids, the risk of a stranded asset still applies through the tie-break rules for MOS. This increases the risk of industry having to fund inefficient costs for AEMO MOS as well as paying for commercial MOS services from normal MOS providers.</p> <p>TRUenergy suggests that in instances where AEMO invests in MOS provision, an entirely separate dispatch and pricing mechanism should be used for this part of the MOS required on any gas day. To ensure that the risk of the investment becoming stranded is minimised for the parties that will stand as the ultimate guarantors for AEMO's decision (i.e. those that pay AEMO's fees), we suggest that this separate process should be:</p> <ul style="list-style-type: none"> <li>• AEMO's MOS capacity should be removed from the three monthly estimate on the basis that AEMO's MOS always will be dispatched ahead of Offers/Bids from eligible contract holders (regardless of any price offered by commercial MOs Providers).</li> <li>• The price that is paid for AEMO MOS can be determined in Procedures - as is currently proposed (i.e. AEMO's funding investment can be funded on an equal basis by all those deviating, or the investment can be recouped differentially by certain categories of deviating parties).</li> </ul> <p>It is arguable that the entirety of the suggested regime (above) can be left to Procedures. However, and regardless of whether TRUenergy's proposal (above) is adopted, given the extreme nature of an AEMO decision to invest in MOS, TRUenergy believes it prudent to articulate the broad concepts for how the STTM will deal with this new investment.</p>

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			<p>Whilst TRUenergy acknowledges that the process suggested above will disadvantage normal market MOS providers, they do result in added incentives for market based solutions, in preference to AEMO making investments on MOS capacity.</p>
10.	Scheduling of the ex ante market	408 (4) (a).	<p>The current description of a “price taker bid” may be problematic because ultimately all customer consumption that normally would be non discretionary can be modified at the request of the STTM user. For example, during network curtailment a STTM user can (and does) request (normally non price sensitive end user) to modify their demand in response to an order from the network operator.</p> <p>TRUenergy asks that consideration be given to more simply defining “price taker bids” to mean - that demand which the STTM User intends to withdraw from a hub on a gas day and which is not included as an ex ante bid?</p>
11.	Ex ante bids	410 (2).	<p>For clarity TRUenergy suggests that the words “and the withdrawal quantity is not part of a Price Taker Bid” should be added at the end of the sentence.</p>
12.	Price taker bids	411 (1)	<p>Similar to above, TRUenergy suggests that “and the withdrawal quantity is not part of an Ex Ante Bid” should be added at the end of the sentence</p>
13.	Price taker bids	411 (3)	<p>Price Taker Bids if published will disclose confidential market share information. Whilst it is proper to disclose aggregated price-taker-bids, individual forecasts should remain confidential even after the end-of-the-gas-day.</p>
14.	Timing of submissions of ex ante offers, ex ante bids and price taker bids	412 (1)	<p>As currently worded this clause appears to relate only to Price Taker Bids. TRUenergy’s view is that, in respect of Ex Ante Offers and Ex Ante Bids, a Trading Participant does not “expect” to deliver quantities of natural gas to or withdraw from the market. Rather, we suggest that the lodgement of an Offer/Bid is more accurately defined as a conditional undertaking to withdraw or to supply gas to the</p>

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			<p>market if (and only if) the price paid/received is sufficient to satisfy the value in the related Offer/Bid quantity step. TRUenergy requests that consideration be given to changing the description of the term price-taker-bid along the lines suggested above.</p> <p>We further suggest that this same price quantity relationship should also be part of the last sentence in this clause (which currently only refers to quantity)</p>
15.	Timing of submissions of ex ante offers, ex ante bids and price taker bids	412 (4).	<p>It is not clear why the Rules should seek to place a regulatory prohibition on Trading Participants from submitting or revising offer/bids after the cut-off times. As currently written, it remains an open question as to whether AEMO is still obligated to accept an Offer/bid made in contravention to this clause. As an alternative approach, TRUenergy suggests that this sub clause should be altered to obligate that AEMO must not accept an offer/bid if received after the cut-off time. TRUenergy understands that (notwithstanding the wording in the exposure draft), this is the outcome that will be delivered by the attendant IT application that will monitor the activities covered by this subclause.</p>
16.	Confirmation by AEMO	413 (2) (iv)	<p>The lack of specificity by the use of the term “consistent” makes problematic the reader’s understanding of AEMO’s powers in respect of the trading right holder. Is this clause intended to mean that the submitting Trading Participant must be the SAME as the trading right holder that is registered with AEMO? If not, what latitude do the Rules intend that AEMO be allowed?</p>
17.	Market schedule variations	424	<p>As currently written, the Rules do not specify how information related to Market Schedule Variations (MSVs) is to be treated. Presumably details of the underlying individual trades that constitute MSVs are intended to be confidential. However, there may be value (for market transparency reasons) to allow aggregated MSV data to be published (both the total quantity and total price paid). For</p>

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			<p>example, availability of aggregated MSV data would be a useful aid in the development of the secondary market that will be needed to expedite the external facilitation of Mess. This data would also be useful in helping to develop forward price curves for future traded contracts.</p>
18.	Market administration states	427	<p>The administered price cap state clause specifies (in sub-clause (3)) the conditions under which prices must not exceed APC. However the Rules are silent regarding how this prohibition will be achieved by AEMO. In an APC state there appears to be no requirement on Shippers and Users to restrict their Offer/Bids to be below APC. Moreover, even if such a prohibition were included, Offers/Bids may have already been lodged when the APC state is applied. To achieve the outcomes mandated in the Rule 427, AEMO clearly will need to modify those Offer/Bids that have been received and that are in excess of APC (to be equal to APC. TRUenergy requests that consideration be given to codifying in the Rules AEMO's need to change prices for Offer/Bids in an APC state. This clarification will add clarity to AEMO's powers and it may minimise the risk of disputes.</p>
19.	Application of cumulative price threshold	431	<p>AEMO should be obligated as a Rules condition to publish the running value of the CPT including the publishing of an overt statement when CPT is exceeded</p>
20.	Contingency gas assessment conference	440	<p>Notwithstanding that a CG assessment conference may not result in an Industry conference, AEMO should be required to publish a notice (on its website) that a CG assessment conference will be held (including publication of a notice under 441 (3) (b)). This information will provide advance warning to industry of the possibility (albeit not a certainty) that an industry conference may be called at a later date. An important aspect of the successful operation of the entire CG process in Division 2 is that surprises should be minimised.</p>

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21.	Confirmation of contingency gas offers or bids	443 (4)	To enable the wider industry to understand how the published CG Offers/Bids were dispatched on the gas day, what information will be made public about those CG Offer/Bids that were not confirmed (clause 447 (a) (1) & (b) (1) appear to relate only to aggregated numbers)?
22.	Process for establishing whether a scheduling error has occurred	452	AEMO should be obligated to publish the broad details of a request by a Trading Participant to investigate an alleged scheduling error thereby allowing wider industry the opportunity to provide information to AEMO in their subsequent investigation (Given that a decision either by AEMO under Rule 452 (3), or the Dispute Panel could result in the requirement for additional funding by the wider industry for the PCF).
23.	When an entitlement to compensation arises	454	<p>Under Rule 426 and part (a) of the definition of “scheduling error”, Price Taker Bids are included as an input to AEMO’s (or the Dispute Panel’s) consideration of scheduling errors. Whilst TRUenergy assumes that the intention of the Rules is for these bids to form the demand-side variable in determining correct dispatch, it is theoretically possible for Price Taker Bids to be incorrectly dispatched in their own right and therefore (again theoretically) to claim compensation. For example, this might occur if AEMO incorrectly applied the quantum of Price Taker Bids to the scheduling process (i.e. AEMO scheduled Offers to meet a lower-than-forecast demand for a gas day). As a consequence of the incorrect schedule and notwithstanding that the ex ante price would be lower in these instances (thereby advantaging Price Taker Bids), Price Taker Bid could incur additional costs as a result of involuntary curtailment, or Contingency Gas or elevated MOS purchases. Was it intended that in these situations the Rules would positively prohibit compensation for Price Taker Bids?</p> <p>Further, the list of Offer/Bids included in subclauses (a) to (d) excludes MOS.</p>

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			<p>TRUenergy assumes that this exclusion was intended to reflect the fact that MOS Offer/Bids are effectively a consequence of the ex post process that is undertaken by the Allocation Agent (acting on behalf of the Pipeline). Whilst it is true that AEMO does not strictly “schedule” MOS, the question arises (as a policy matter), should errors in MOS scheduling also be covered by the PCF? This question pertains only to the STTM component of the allocated amounts for the MOS stack. Because of the liability limitation provisions in the Rules, MOS providers redress for errors in MOS scheduling (against pipeline owners) is similar to those of AEMO. If the role of the PCF were to be extended to include MOS, the PCF would not apply to the contractual impact of incorrect allocations (which would be covered by commercial Shippers agreements with pipeline owners). TRUenergy seeks comment on this suggestion.</p>
24.	Graduated deviation parameters	460	<p>In listing the two penalty tables for deviation charges/payments, TRUenergy assumes that drafters have sought to codify the actual penalty values because these are seen as being important elements of the settlement equations - much like market price caps such as MOS, VoLL, MMP and the settlement surplus cap. However, unlike the methodology used in the Rules for price caps, the approach adopted for deviation payments seems to be that the penalty tables have been codified in the Rules, but the underlying settlement paradigms that apply these values have been left to be defined in Procedures. This approach is different from that used for market price caps where both the values and the broad concepts for application are described in the Rules.</p> <p>The methodology adopted in the exposure draft for penalty values appears odd in that it results in the codification of a detailed element of a process whose conceptual construction is defined in a “lesser” document. As currently proposed, this allows the AEMO change process to alter the controlling paradigms that apply the penalty valves, but restricts changes</p>

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			<p>to these values to the AEMC process. TRUenergy asks that this approach be reviewed.</p> <p>In addition TRUenergy requests that consideration be given to clarification in this clause of how the graduation deviation parameters are intended to apply. As currently written this clause suggests that deviations charges/payments use the “lesser of the graduated deviation parameters in” the tables. However, because the definition of the term “graduated deviation parameters” is circular (i.e. the definition simply refers back to clause 460) it is possible to read this clause in at least two ways thereby producing entirely opposite outcomes. That is, if the reader assumes that the term “graduated deviation parameter: refers to the column headed “Deviation percentage range” a different and opposite answer occurs than if the reader takes this term to mean the calculation outcome from the application of both columns in the table. TRUenergy understands that the latter approach is intended and we suggest that amended Rule include a more fulsome explanation of this intent.</p>
25.	Graduated variation parameters	462	Ditto comments to clause 461 (above)
26.	Margin calls	485 (1) (b)	<p>This Rule is silent of how bank interest that accrues to AEMO’s account is treated if a Trading Participant elects to satisfy a margin call by way of prepayment. TRUenergy believes that this is a Rules matter, rather than an issue for Procedures. Our preference is that interest earned on prepaid amounts is not revenue that should stay with AEMO. TRUenergy suggests that this interest should be notionally allocated to the Trading Participant thereby lowering the principal amount held by AEMO against future margin calls.</p>
27.	Market reviews	Division 11 (generally)	As currently written the Rules overtly state that some reviews must be published and for other

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			<p>reviews, this requirement is silent. This dynamic also applies in some reviews (and not others) to the obligation of AEMO to consult with various sectors</p> <p>TRUenergy suggests that consideration be given to restructuring this Division so that there are overriding obligations for AEMO to publish and to use the standard consultation process (or better) for all reviews, followed by a list of the particular reviews that are to be undertaken</p>