



Compliance Bulletin No. 4

Submitting best estimate injection bids and withdrawal bids in the
Victorian Declared Wholesale Gas Market

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Inquiries about the currency of this compliance bulletin should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Tel: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

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Shortened forms

AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Bids	A bid by a Market Participant to inject or withdraw gas from the DTS during a gas day as referred to in Part 19 of the Gas Rules.
DFPC	Directional Flow Point Constraint are applied to limit net flows at bidirectional system injection/withdrawal points.
DTS	The Victorian Declared Transmission System referred to in Part 19 of the National Gas Rules.
Gas Rules	National Gas Rules
GSP	The Gas Scheduling Procedures AEMO must maintain and use in scheduling as referred to in rule 206 of Part 19 of the Gas Rules.
Market Participant	A category of Registered Participant referred to in Part 19 of the Gas Rules and subject to the requirement to submit bids.
MIBB Reports	Reports published by AEMO for the Victorian Gas Market which include information on SDPCs.
schedule	Scheduling of gas during the gas day by AEMO in relation to the withdrawal and injection of gas from and into the DTS.
SDPC	Supply Demand Point Constraint
SWN	System Wide Notices are used by AEMO to advise the market of changes in SDPCs and DFPCs on a gas day.
Victorian gas market	The Declared Wholesale Gas Market referred to in Part 19 of the National Gas Rules.

1 Introduction

The Australian Energy Regulator (AER) is responsible for monitoring compliance by Registered Participants and other persons with the National Gas Law (Gas Law), the National Gas Rules (Gas Rules) and associated Regulations. The AER aims to work co-operatively with participants to help them understand the obligations under the Gas Rules in order to achieve a high level of compliance.

Part 19 of the Gas Rules governs the operation of the Declared Wholesale Gas Market (Victorian gas market) including obligations on market participants when submitting bids. The Gas Scheduling Procedures (GSP) under part 19 of the Gas Rules are also relevant to the bidding process. Under these procedures facility operators inform AEMO and market participants of information affecting gas supply.

Specifically, Gas Rules 213(2)(b) and (c) require a market participant to ensure each injection bid and withdrawal bid represents a best estimate of the quantity of gas the market participant expects to be able to inject or withdraw from the declared transmission system (DTS).

The purpose of this compliance bulletin is to explain the AER's expectations in regard to market participants making "best estimates" when submitting injection bids and withdrawal bids.

We encourage participants to review their compliance programs to ensure they reflect the expectations of the AER as identified in this compliance bulletin. The AER is open to discussing any concerns that market participants may have relating to this compliance bulletin or compliance with energy market obligations more generally.

1.1 Current levels of compliance

The AER monitors the conduct of market participants in the Victorian gas market on an ongoing basis. Monitoring relies on public data and information provided by the Australian Energy Market Operator (AEMO) and other entities. The AER uses this information to assess compliance with the Gas Rules. Among other things, the AER monitors market participant bids.

The AER publishes compliance reports each quarter which set out the details and outcomes of its inquiries and investigations relating to Part 19 and other sections of the Gas Rules, and highlight any compliance issues. The AER identified three instances where it considered there was non-compliance with Gas Rules 213(2)(b) and (c) in November 2008 and a further three instances between June and July 2009. Details of the AER's assessment of these incidents were published in its Quarterly Compliance Reports,¹ and are also summarised in section 3 below.

The submission of injection/withdrawal bids which are not best estimates could seriously and adversely impact the operation of the Victorian gas market. In

¹ AER, Quarterly Compliance Report (July- September 2009), page 8; AER, Quarterly Compliance Report (August-December 2009), page 8; AER, Quarterly Compliance Report (October-December 2010), page 7 (all of the reports are available at www.aer.gov.au)

particular, the quality of information available to the market is reduced, which in turn reduces market efficiency. Where market participant bids are not best estimates, AEMO may schedule gas which is not delivered causing inefficient pricing outcomes. This could also lead to system security issues.

2 Regulatory framework

This section describes the AER's functions and responsibilities and summarises the provisions of the Gas Rules relevant to this compliance bulletin. It also outlines a set of principles for market participants to follow to ensure the submission of best estimate bids.

2.1 Role and functions of the AER

The AER has functions and powers,² which include:

- monitoring compliance with the Gas Law and the Gas Rules
- investigating breaches or possible breaches of the Gas Law and the Gas Rules
- instituting proceedings in relation to breaches.

In exercising these functions and powers, we work to ensure that:

- our approach is consistent over time
- our processes are cost effective for relevant participants and the AER
- our activities are transparent.

The AER has detailed its methods for compliance and enforcement in the *AER Enforcement and Compliance - Statement of Approach* which is available on the AER website.³ This document explains the AER's approach to monitoring compliance, how the AER responds to potential breaches, and how it decides whether or not to take enforcement action.

2.2 Relevant Rules

This compliance bulletin explains how the AER will monitor and enforce compliance with Gas Rules 213(2)(b) and (c).

2.2.1 Best estimate rule requirement for submissions

Gas Rules 213(2)(b) and (c) state that each Market Participant must ensure that:

- (b) each injection bid submitted by that Market Participant is made in good faith and represents that Market Participant's best estimate of the quantities of gas it expects to be able to inject into the declared transmission system at the relevant system injection point on the relevant gas day should AEMO schedule that gas;
- (c) each withdrawal bid submitted by that Market Participant is made in good faith and represents that Market Participant's best estimate of the quantities of gas which it expects to withdraw from the declared transmission system at the relevant system withdrawal point on the relevant gas day should AEMO schedule that gas.

² The AER's functions and powers are outlined in Section 27 of the National Gas Law

³ Available at: <http://www.aer.gov.au/content/index.phtml?itemId=685897>

These requirements apply every time a bid is made, resubmitted or updated including for:

- bids made or resubmitted before the start of a gas day, and
- updated bids made during the gas day.

The AER considers that the best estimate requirement refers to amounts of gas which can be physically injected or withdrawn should AEMO schedule that gas.⁴

2.2.2 Key related Gas rules and procedures

Other related gas rules and procedures relevant to market participant compliance with Gas Rules 213(2)(b) and (c) are explored below.

Gas Rules 211(1)-(4)—Timing of submissions by market participants

These rules specify cut-off times by which market participants must submit or resubmit a bid before the 6am beginning of gas day schedule and other times when market participants may update a bid on the gas day, for the 10am, 2pm, 6pm and 10pm schedules.

The AER expects that anytime a bid is made, the "best estimate" requirement under Gas rules 213(2)(b) and (c) will be followed.

Clause 3.8 of Gas Scheduling Procedures (GSP)—SDPCs

Under this clause, AEMO may apply Supply and Demand Point Constraints (SDPCs) to reflect contractual, physical and operating constraints at system injection points and system withdrawal points that are to be taken into account during the scheduling process.⁵ Clause 3.8 of the GSP specifies that AEMO will set SDPCs in accordance with information supplied by gas suppliers⁶, or the facility operator of a system injection point,⁷ and that AEMO will notify changes in SDPC information to the Victorian gas market via System Wide Notices (SWNs). AEMO also publishes SDPC information with each operating schedule on a gas day.⁸

The AER expects information contained in these SWNs and the associated MIBB reports to be taken into account by market participants when bidding under Gas Rules 213(2)(b) and (c).

Gas Rule 211(5), Clause 3.6.1 of the GSP—updated bids

In accordance with the GSP and the Gas Rules an updated bid must be for the whole of the gas day. It must also be consistent with the quantity scheduled by AEMO, in

⁴ Market Participants should have the appropriate combination of transportation, storage and commodity contracts to meet the bid should it be scheduled.

⁵ The requirement on AEMO to make Gas Scheduling Procedures and take account of them in scheduling gas is in rule 206 of the National Gas Rules.

⁶ Gas producers, storage providers or interconnected transmission pipeline service providers

⁷ This applies where multiple supply sources sharing a system injection point have been registered by the facility operator under section 3.8A of the Wholesale Market Gas Scheduling Procedures (Victoria)

⁸ AEMO, User guide to MIBB reports, p.33,34, www.aemo.com.au

respect of that bid, for the current and preceding scheduling intervals on that gas day. This requirement effectively means that bids cannot be altered retrospectively. For example:

- A market participant bids 48TJ for the gas day at a particular system injection point for the 6am schedule and 48TJ is scheduled of which 8TJ is scheduled between 6am and 10am;
- If, a gas supply outage at that system injection point occurs soon after this bid is made, the market participant would be able to lower its bid for the next reschedule (10am) to as low as 8 TJ,⁹
- However, the market participant would not be able to lower its bid below the 8 TJ scheduled for the 6am to 10am scheduling interval.

In this context, the 8TJ must be the best estimate the market participant could provide in any updated bid. This also assumes that restoration of gas supply on that gas day was not expected, consistent with the SDPC issued by AEMO.¹⁰

Currently however, AEMO systems preclude a market participant from lowering quantities in updated bids for reschedules below what has been already scheduled for the whole of the gas day (as published in the latest operating schedule). Following discussions between industry, AEMO and the AER at the Gas Wholesale Consultative Forum (Victoria), this restriction is planned to be removed by AEMO in March 2012.¹¹

For as long as this restriction exists, the AER will expect bids to not be lowered beyond the relevant scheduled daily quantity in the most recently published operating schedule. In the example above, this means that 48TJ must be retained in the updated gas bids, regardless of a gas outage.

2.2.3 Best estimate and best practice

The AER has developed the following principles as guidance for what it sees as best practice with respect to the requirements of rules 213(2)(b) and (c) to submit best estimates injection/withdrawal bids.

Prior to submitting, resubmitting or updating an injection bid or withdrawal bid, a market participant must:

1. have robust processes to inform them of the amount of gas available to them, and the amount of gas that can be delivered or withdrawn by them, prior to submitting a bid;

⁹ As a consequence of this outage it is possible under certain conditions that AEMO could apply an SDPC and publish an ad hoc schedule (revised operating schedule) during the first scheduling interval. In this example, the 8TJ quantity would then be replaced by the relevant quantity, potentially a smaller quantity, published in that ad hoc schedule.

¹⁰ In the general case, the bid for a reschedule may be reduced to be no less than the quantity scheduled in the current and previous scheduling period in the last published operating schedule, including the case where this is an ad hoc schedule. This applies generally for updated bids for reschedules but is of particular relevance in the event of a gas supply outage.

¹¹ Stated by AEMO staff at the Gas Wholesale Consultative Forum on 24 May 2011.

2. take account of any SDPC information from AEMO where the SDPC may limit the amount of gas that can be delivered or withdrawn;
3. take account of any changes in SDPC information from AEMO, including on the gas day; and
4. always ensure that, subject to the principles above, the entire quantity of gas bid is able to be physically injected or withdrawn should AEMO schedule that gas.¹²

Further application of these principles is explained in the examples in 2.3 below.

Specific case—application of principles to bi-directional system flow points

Market participants will best ensure compliance with the requirements of the Gas Rules by adhering to the above principles when making injection or withdrawal bids at bi-directional system flow points.

The AER recognises AEMO's current systems allow quantities of withdrawal bids to be scheduled provided injection bids are also scheduled at the same system point and vice versa. The AER also acknowledges for this case, the Directional Flow Point Constraints (DFPC) facility outlined in AEMO's Gas Scheduling Procedures (clause 3.9) is designed to allow the maximisation of financial flows at bi-directional system flow points.

The AER will closely monitor the market to ensure that this facility in the market is not being used to produce scheduling outcomes which could affect the efficient operation of the market and system security should one of the bids not be scheduled. For example:

- AEMO publishes a DFPC limiting net withdrawals to 30TJ at a system point;
- Market Participant(s) bid 190 TJ of withdrawals, while other Market Participant(s) bid 160 TJ of injections;
- Pricing efficiency and system security issues may ensue should one or more of the withdrawal bids not be scheduled based on the market price outcome. This could occur if the injection bids scheduled were beyond what can be delivered.¹³

2.3 Examples of AER compliance expectations

The AER has investigated suspected breaches of Gas Rules 213(2)(b) and (c) on six occasions. The following examples summarise these incidents and provide guidance on the AER's compliance expectations.

¹² Market Participants should have the appropriate combination of transportation, storage and commodity contracts to meet the bid should it be scheduled.

¹³ In general, issues may arise if market participants use the facility to bid outside accredited amounts or otherwise bid amounts which cannot be delivered under their physical contracts.

2.3.1 21 November and 22 November 2008

The AER investigated injection bids made by market participants at the Iona system point on 21 November 2008 against the requirements of rule 213(2)(b). Due to maintenance at the Iona gas plant and a SDPC of 0 TJ/day, market participants were unable to inject (or withdraw) any gas from Iona. This was known well in advance of the gas day.

The AER considered that injection bids submitted by market participants at the Iona system point of greater than 0TJ were inconsistent with the requirement of rule 213(2)(b). The AER considered that these bids should not have been submitted; or otherwise a bid of zero should be submitted to reflect the circumstances. (note Principle 2).

On 22 November 2008, SDPC information relating to the Iona gas plant changed through the day reflecting changes in the timing of the plant returning from maintenance. A participant updated its injection bid at the Iona injection point during the gas day (for the 6 pm schedule), placing more quantity into lower price bands and leaving the total quantity of gas in the bid unchanged. However, prior to this bid being made, AEMO had published (via a SWN and associated MIBB reports) updated SDPC information about the injection point indicating that a lower total amount of gas than in the participant's 6 pm bid could be delivered. That is, the participant's bid quantity clearly exceeded the deliverable quantity at the system injection point given the updated SDPC.

The AER considered the market participant's rebid should have included a reduced gas quantity (note Principle 3).

2.3.2 11 June 2009

Leading up to the 11 June 2009 gas day, due to performance issues with the connected gas plant, there were changes in the gas production capability of a facility connected to the DTS. Prior to submitting its beginning-of-day bids for 11 June 2009, a market participant did not seek or receive updates from the facility operator regarding the expected quantity of gas production.

Given the known performance issues with deliveries of gas from the facility, and the contractual relationship between the market participant and the facility operator, the AER expected that the market participant would have confirmed production capacity. The AER also expected the market participant would have more actively sought up to date information as to production capability prior to submitting its initial bid (note Principle 1).

2.3.3 1, 3, 23 July 2009

On these days, the AER investigated two market participants who were submitting bids of equal quantity but opposite direction at a system injection/withdrawal point. The AER then ascertained that these bids were reliant on price outcomes (i.e. both the injections and withdrawals being scheduled) rather than the bids being independently supported by physical supply and capacity to enable injections or withdrawals of gas from the DTS. The AER considered the 'counter-acting' injection and withdrawal bids by the two participants at the VicHub system point were inconsistent with the requirements of rules 213(2)(b) and (c).

The AER considers the best estimate obligations established under Gas Rules 213(2)(b) and (c) require that bids must stand alone and be physically capable of being delivered (note Principle 4).

3 Approach to compliance monitoring

The AER's compliance system generates reports which identify bids and rebids that may not comply with the Gas Rules. The AER currently generates that information on a weekly basis as part of preparing the weekly gas market analysis report.¹⁴ This report is used as part of the AER's enforcement and compliance strategy for monitoring participant compliance with the Gas Rules and alerting the AER of any suspected non-compliance.

The AER also may receive information from AEMO and/or other industry stakeholders, on the basis of which it may make further inquiries.

As set out in the *AER Compliance and Enforcement - Statement of Approach*, the AER will consider each possible instance of non-compliance on a case by case basis. It will consider a range of factors before forming a view on what, if any, enforcement action to take.

If the AER suspects there has been a breach of rules 213(2)(b) and (c) of the Gas Rules, when deciding on an appropriate response the AER will take into account:

- the specific details of the breach, and whether that participant has committed similar breaches of that nature in the past;
- the extent of the breach and the harm caused to other participants as a result of the breach;
- the participant's systems and processes for complying with the requirements of this clause, and the overall compliance culture in the participant's organisation; and
- assess whether the participant's compliance arrangements reflect good energy industry practice.
- whether there are any legitimate reasons as to why a market participant is unable to submit injection bids or withdrawal bids that comply with the Gas Rules.

The factors listed above do not limit the AER's discretion to take enforcement action in relation to any injection bid or withdrawal bid where it suspects there has been non-compliance.

¹⁴ Available at: <http://www.aer.gov.au/content/index.phtml/itemId/729309>