Significant Price Variations in the STTM

Guideline

Version No.2

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Amendment record

Version	**Date**	**Pages**
1	21 December 2012	7
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Shortened forms and definitions

Shortened form	Full title
30 day rolling average price	An average price determined from a 30 day period, the last day of which is the day before the gas day
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
D-2 price	The ex ante market price for the D-2 schedule (defined in the Gas Rules).
Ex ante price	The ex ante market price as defined in the Gas Rules
Ex post price	The ex post imbalance price as defined in the Gas Rules
Gas Law	National Gas Law
Gas Rules	National Gas Rules
Guideline	Significant Price Variations in the STTM Guideline
MOS	Market Operator Service
MOS service payment	Sum of payments made to *MOS providers* on a gas day for *MOS increase offers* or *MOS decrease offers* at the *MOS price* (where the italicised terms are defined in the Gas Rules)
SPV	significant price variation
STTM	Short Term Trading Market.
STTM hub	Defined in Division 2 of Part 20 of the Gas Rules to presently include an Adelaide hub, a Brisbane hub and a Sydney hub
Trading Participant	A STTM Shipper or STTM User as defined in the Gas Rules

1 Overview

1.1 Background

On 1 September 2010 a short term trading market (**STTM**) commenced for the wholesale trading of natural gas at defined hubs between transmission pipelines and distribution systems. Originally there were just two hubs; Sydney and Adelaide. However, on 1 December 2011, a hub commenced in Brisbane. The STTM design allows for further hubs to be added in the future.

While each hub is scheduled and settled separately, they all operate under the same rules. Part 20 of the National Gas Rules (**Gas Rules**) sets out the rights and responsibilities of relevant parties in respect of the STTM.

1.2 Purpose of the Guideline

Rule 498 of the Gas Rules requires the AER to identify and report on any significant price variations in the STTM. The AER is required to develop and publish this Guideline which sets out what constitutes a significant price variation (**SPV**).

When an SPV is identified the AER will notify Trading Participants of the relevant event or circumstances within 10 business days and publish a report within 60 business days.

In November 2012 the AER released an issues paper on proposed SPV triggers and invited submissions from stakeholders. The AER has published a decision document which details its consideration of the submissions. These submissions supported the Guideline published in December 2012. However, since then the STTM has matured and conditions in the gas market have changed significantly. Due to a recent significant increase in gas prices, and subsequent RoLR events, the AER has decided to amend the 2012 Guideline with a revised significant variation price threshold to ensure that the requirement does not lead to multiple reports that are similar in nature. This was flagged in the AER's Reasons for Final Decision in 2012 as a reason to review the thresholds.

The AER considers this amended Guideline will continue to provide transparency to the market, as Trading Participants will be aware of the thresholds that require the AER to publish a report. However, notwithstanding the SPV triggers in this Guideline, the AER will continue to issue reports on outcomes in the STTM whenever it considers appropriate as part of its broader monitoring and enforcement role, as well as continuing to monitor the amended SPV price triggers.

1.3 The role of the AER

The AER's functions and powers in respect of the monitoring and enforcement of compliance with the Gas Rules and National Gas Law (**Gas Law**) are outlined in section 27 of the Gas Law.

These functions include:

(a) monitoring compliance

(b) investigating breaches, and

(c) instituting proceedings in relation to breaches.

Further, the AER is required under rule 498 of the Gas Rules to monitor STTM trading activity to ensure compliance with obligations. The AER also monitors the operation and performance of the STTM, including publication of weekly reports covering outcomes in the STTM hubs and the Victorian gas market. The SPVs in this Guideline will form an integral part of the AER's monitoring and compliance activities.

1.4 Processes for revision and version history

The AER will review these Guidelines periodically and may amend them as required. A version number and an effective date of issue will identify every version of this Guideline.

2 STTM prices and payments

The reporting triggers set out in this Guideline relate to ex ante prices, ex post prices and Market Operator Service (**MOS**) payments. The following information has been prepared to provide a brief overview of these concepts. For further information, AEMO has published an overview and a technical guide on the STTM, which is available on its website.[1] Also, the AER issues paper released in November covers this material in detail.[2]

Prices for the provisional, ex ante, and ex post schedules

If a Trading Participant expects to supply and/or withdraw quantities of natural gas to or from a hub on a gas day, it must submit to the Australian Energy Market Operator (**AEMO**) bids (to withdraw gas) and/or offers (to supply gas) that reflect its best estimate of the quantities it expects to supply or withdraw.[3] This also applies to any revisions of previously submitted bids and/or offers.

Rule 410(2) of the Gas Rules sets out the timing of submissions of bids and offers. Submissions of bids and offers for a gas day must be made no later than:

- three days before the gas day (referred to as the D-3 schedule)
- two days before the gas day (referred to as the D-2 schedule), and
- one day before the gas day (referred to as the D-1 or the ex ante schedule).

The D-3 and D-2 schedules are together referred to as the provisional schedules. The provisional schedules do not result in the sale or delivery of gas. Rather, they act to assist Trading Participants with forecasting demand and may provide warning of potential contingency gas events. The provisional schedules produce forecast prices and quantities for the gas day, and are fundamental to the price discovery process and the efficient operation of the STTM.

The D-1 schedule determines the ex ante market price for each hub. The ex ante price may be a minimum of $0/GJ or a maximum of $400/GJ. The ex ante market price is determined by stacking and matching offers and bids in price order. The D-1 schedule determines the injections and withdrawals of gas at each gas hub on the gas day. While Trading Participants are not obligated to follow the ex ante schedule, they are incentivised to do so.

Trading Participants who are scheduled to sell gas into the market will be paid the ex ante price. Buyers who are scheduled in the market will pay the ex ante price. The first three triggers in this Guideline will lead to reporting in the event that ex ante prices are high or differ significantly from either forecast (D-2) prices or ex post prices (described below). This may occur as a result of rebidding, changes to demand forecasts or other factors, such as outcomes in electricity markets, which have significant financial impacts on trading participants depending on their trading position.

The day after the gas day, AEMO calculates the actual injections and withdrawals and then produces an ex post schedule. The main purpose of the ex post schedule is to determine the imbalance (i.e. if more or less gas was consumed relative to the quantity forecast in the ex ante schedule) and then the ex post price (which is calculated using the same bids and offers that made up the ex ante schedule, but with the imbalance

1 http://www.aemo.com.au/About-the-Industry/Resources/Market-Overviews
2 http://www.aer.gov.au/node/18400
3 See rule 410 of the Gas Rules

amount taken into account). As for the ex ante price, the ex post price may be a minimum of $0/GJ and a maximum of $400/GJ. Trading Participants who supply or use a different quantity of gas to AEMO's schedule incur a cost which encompasses the ex post price. For example, if a buyer is scheduled to consume 10 units of gas, but consumes 12 units of gas, it will generally pay for the 2 unit 'deviation' at the higher of the ex ante and ex post price. The fourth trigger in this Guideline will lead to reporting in the event ex post prices are high. High ex post prices may have significant financial impacts on Trading Participants depending on their trading position.

Market Operator Service (MOS)

MOS, also known as 'balancing gas', is the difference between what was scheduled by a pipeline operator (which in most cases matches the nominations submitted by participants) and the actual quantities of gas flowed on a pipeline on the gas day. When the net flow on an STTM pipeline deviates from the final pipeline schedule, then MOS is deemed to have provided the gas. Increase MOS refers to when more gas flows to the hub relative to the pipeline schedule, and decrease MOS refers to when less gas flows to the hub relative to the pipeline schedule. MOS is provided by Trading Participants.

There are two types of costs/payments that relate to providing MOS; the commodity cost/payment, and the service payment. The commodity cost/payment is based on the daily market value of gas as determined by the ex ante price. The service cost is determined by the MOS offer prices and quantities that a Trading Participant submits for providing quantities of MOS. The minimum MOS (service) offer price is $0/GJ and the maximum MOS offer price is $50/GJ. The MOS offer price will be influenced by a range of factors, such as payments required to be made to pipeline operators for loaning gas from, or parking gas on, a pipeline.

Before each MOS period, AEMO estimates the amount of MOS required for the next period (currently every three months) and seeks offers from Trading Participants to provide the MOS.[4] Payments for these offers were designed to reflect the service costs incurred by the Trading Participant (i.e. not the commodity cost).

If a Trading Participant's MOS offer (increase or decrease MOS offer) is scheduled, they will be paid for the service component in accordance with the quantity scheduled and the price of the scheduled MOS offer (up to $50/GJ). In the case of increase MOS, the Trading Participant will also receive a MOS commodity payment (as they are providing additional gas to the hub). In the case of decrease MOS, the Trading Participant will incur a MOS commodity charge (as they are in effect purchasing gas and storing it on the pipeline). In both cases the MOS commodity payment/charge is calculated using the ex ante gas price 2 days after the gas day.

The fifth trigger in this guideline relates to the MOS service payment component. The magnitude of a MOS service payment will be determined by the MOS quantity required and the price of MOS offers. High MOS service payments may impact significantly on Trading Participants depending on their trading position. High MOS commodity payments/charges are not a reporting trigger but are likely to be reflective of high ex ante prices identified by the AER's third reporting trigger.

[4] On 13 September 2012, the Australian Energy Market Commission commenced consultation on a rule change request proposed by AEMO which, in part, sought to reduce the MOS period to 1 month. See www.aemc.gov.au

3 Reporting triggers

The following reporting triggers apply to each STTM hub for any gas day:

Significant price variations

1. When there is a variation of greater than $14/GJ between the D-2 price and ex ante price.
2. When there is a variation of greater than $14/GJ between the ex ante and the ex post price.

Significant prices

3. When an ex ante price is greater than three times the 30 day rolling average price and greater than $15/GJ.
4. When an ex post price is greater than three times the 30 day rolling average price and greater than $15/GJ.

MOS threshold

5. When a MOS service payment exceeds $250 000.