



Victorian
Declared Wholesale Gas Market
Significant Price Variation
Guideline
Version No.1
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AMENDMENT RECORD

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1. Overview

1.1 Purpose of this Guideline

The *AER* became responsible for monitoring and enforcing the Victorian Declared Wholesale Gas Market (the *Victorian Gas Market*) with the advent of the *National Gas Rules* (the *Gas Rules*) and *National Gas Law* (the *Gas Law*) in July 2009.

The *AER* is required under clause 354(a) of the *Gas Rules* to monitor trading activity to ensure that trading activity is in accordance with Part 19 of the *Gas Rules* pertaining to the *Victorian Gas Market*.

In particular, the *AER* is required under clause 354(b) and 355(1) of the *Gas Rules* to monitor trading activity in the *Victorian Gas Market* to identify and report on any significant price variations (*SPVs*). The *AER* is required under clause 355(2) to develop and publish guidelines as to what constitutes a *SPV*. This guideline is published pursuant to this requirement.¹

The *AER's* reporting of *SPVs* will examine the factors that contribute to price outcomes. The *AER* expects the reports will be of interest to a wide range of parties including existing market participants, participants considering entering the *Victorian Gas Market*, policy makers, energy analysts and consumer groups. One of the *AER's* goals in reporting on *SPVs* is to better inform a wider range of stakeholders on the operation of the markets it monitors.

It is envisaged that this Guideline, and the *SPV* triggers contained within, will provide transparency to the market, as participants will be made 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 gas market whenever it considers appropriate, as part of its broader monitoring and enforcement role.²

A key objective of this Guideline is to assist the *AER* in determining and reporting on whether the market is producing efficient outcomes. Efficiency is a key consideration of the national gas objective, as set out in section 23 of the *Gas Law*:

The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

¹ Prior to July 2009, VENCorp was responsible for determining *SPV* triggers and publishing *SPV* reports

² In addition to clause 354(a) of the *National Gas Rules*, the *AER* is also empowered under section 27 of the *National Gas Law* to monitor and investigate compliance by persons with the *National Gas Law*, *Rules* and *Regulations*.

1.2 The role of the AER

The *AER's* functions and powers in respect to the monitoring and enforcement of compliance with the *Gas Rules* and *Gas Law* are outlined in section 27 of the *Gas Law*. These functions include:

- (a) to monitor compliance by persons with this Law, the Regulations and the Rules, including compliance with an applicable access arrangement, an access determination and a ring fencing decision;
- (b) to investigate breaches or possible breaches of provisions of this Law, the Regulations or the Rules, including offences against this Law;
- (c) to institute and conduct proceedings in relation to breaches of provisions of this Law, the Regulations or the Rules, including offences against this Law; and
- (d) to institute and conduct appeals from decisions in proceedings referred to in paragraph (c).

The *AER* monitors the operation and performance of the *Victorian Gas Market* and conducts investigations in response to market outcomes and events. As part of its monitoring and enforcement operations, the *AER* also assists market participants to develop robust compliance cultures. This includes specific targeting of market operations and a rolling programme of reviews of market participants' compliance strategies.

1.3 Definitions and interpretation

The words and phrases in this Guideline presented in italics have the meaning given to them in either the glossary, or if not defined in the glossary, the Rules.

1.4 Processes for revision and version history

The *AER* may make amendments from time to time in order to fulfil its obligation to develop this Guideline.

A version number and an effective date of issue will identify every version of this Guideline.

2. Significant Price Variations

2.1 Gas Market Prices and payments

The *Market Price* for a gas day is first set at 6 am and recalculated at 10 am, 2 pm, 6 pm and 10 pm through a market scheduling process.³ This process broadly schedules gas offers (injections) in price merit order to meet demand (withdrawals). Resultant *Market Prices* are used in the calculation of imbalance and deviation payments.

Market participants receive or pay imbalance payments if they are scheduled to inject more or less gas in to the market than the gas they are scheduled to withdraw. Market participants who do not follow schedules receive or pay deviation payments for the difference between actual outcomes (actual injections or withdrawals) and what they were originally scheduled for.⁴ The usage of *Market Prices* in the calculation of imbalance payments and deviation payments is described further in a technical guide published by *AEMO* on the *Victorian gas market*.⁵

AEMO publishes the 6 am, 10 am, 2 pm, 6 pm and 10 pm *Market Prices* and volumes traded during each gas day. Additionally, based on these prices and volumes, *AEMO* publishes two measures of *Trade Weighted Market Prices* — the Imbalance Weighted Average Daily Price (IP) and the Imbalance Deviation Weighted Average Daily Price (IDP).

The IP provides a measure of the average price paid for gas through imbalance payments whereas the IDP provides a measure of the average price paid for gas through both imbalance and deviation payments.

The IDP is potentially a better measure of the overall price for gas paid through the market since it takes account of both imbalance and deviation trades. However, the IP is calculated soon after the gas day whereas the IDP is not published by *AEMO* until the end of each month as part of market settlement.

For the purposes of this Guideline, the *AER* is using the IP as the indicator of the *Trade Weighted Market Price*.⁶

Ancillary Payments may arise on a gas day when it is not possible to schedule the cheapest gas supplies to meet the required demand for a given gas day — such as when the system is congested — resulting in more expensive gas being scheduled.

³ See Subdivision 3 of Division 2 of Part 19 of the *Gas Rules*

⁴ see Rule 235 of the *Gas Rules*

⁵ *AEMO's Technical Guide to the Victorian Wholesale Gas Market (January 2010)*, at sections 11 and 12, www.aemo.com.au

⁶ From the current version of the Market Information Bulletin Board report int041 published on *AEMO's* website

Ancillary Payments represent a calculation which accounts for the difference between the *Market Price* and the *Bid* price of any ancillary gas scheduled.⁷ It reflects the payment made to a Market Participant to pay the *Bid* price for a quantity of gas scheduled rather than the *Market Price*. The calculation of *Ancillary Payments* is described further in a technical guide published by AEMO on the *Victorian gas market*.⁸

The occurrence of and the amount of *Ancillary Payments* are published by AEMO in an *Ancillary Payment* report. For the purposes of this Guideline, the AER is using the *Ancillary Payment Amount* from this AEMO report as an indicator of a variance from the *Market Price* when the market pays the *Bid* price for ancillary gas.⁹

2.2 Categories of Significant Price Variations

The AER undertook its own analysis of data collected since market start in March 2007. Staff developed an options paper¹⁰, which was circulated to stakeholders and discussed at a forum held in Melbourne in May 2010.¹¹ The forum was attended by representatives from *Victorian Gas Market* participants and AEMO. The representatives were given the opportunity to provide feedback, both during and after the meeting.

After considering stakeholder feedback, the AER has determined that a *SPV* occurs in circumstances set out below.

Trade Weighted Market Price

A *SPV* occurs when the *Trade Weighted Market Price* published by AEMO on a gas day is more than three times the average price for the previous 30 days and the *Trade Weighted Market Price* is equal to or greater than \$15/GJ.

Ancillary Payment Amount

A *SPV* occurs when the *Ancillary Payment Amount* published by AEMO on a gas day is an amount payable or receivable which exceeds \$250 000.

⁷ See Rule 239 of the *Gas Rules*

⁸ AEMO, *Technical Guide to the Victorian Wholesale Gas Market (January 2010)*, at sections 14, www.aemo.com.au

⁹ From the current version of the Market Information Bulletin Board report int117b published on AEMO's website

¹⁰ AER, *Significant Price Variations Guideline Trigger Options Paper*, May 2010

¹¹ AER, *Monitoring and Reporting Forum*, held in Melbourne on May 13 2010

3. Glossary

AER means the Australian Energy Regulator

AEMO means the Australian Energy Market Operator

Ancillary Payment means a payment determined in accordance with rule 239 of Part 19 of the *Gas Rules* to a Market Participant.

Ancillary Payment amount means the amount of *Ancillary Payments* for a gas day from the current version of the Market Information Bulletin Board Report int117b published on *AEMO*'s website.

Bid means a *Bid* by a market participant in accordance with Subdivision 2 of Division 2 of Part 19 of the *Gas Rules* to inject quantities of gas into, or withdraw quantities of gas from the declared transmission system during a gas day, or such a *Bid* as modified by that Market Participant in accordance with Division 2.

Gas Law means the National Gas Law

Gas Rules means the National Gas Rules

Victorian Gas Market means the Declared Wholesale Gas Market referred to in Part 19 of the National *Gas Rules*

Market Price means prices for gas set by *AEMO* for each scheduling interval horizon as determined in accordance with Subdivision 3 of Division 2 of Part 19 of the *Gas Rules*

Trade Weighted Market Price means the imbalance injection withdrawal weighted average daily price from the current version of the Market Information Bulletin Board report int041 published on *AEMO*'s website

SPV means *Significant Price Variation* (see clause 355(2) of the *National Gas Rules*)