RULE CHANGE

Australian Energy Market Commission

RULE DETERMINATION

National Gas Amendment (Matched allocation process in the STTM) Rule 2015

Rule Proponent

Jemena Gas Networks (NSW) Ltd

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

Summary

The Australian Energy Market Commission has made a final rule that enables the operator of the NSW Gas Network,[1] Jemena Gas Networks (NSW) Ltd (Jemena), to continue to utilise either of two available methods for the purpose of meetings its daily gas needs for operational requirements.

Under the final rule, gas purchased by Jemena to meet its obligation to procure "unaccounted for gas" for the operational requirements of its Short Term Trading Market (STTM) distribution system at the Sydney hub, can be excluded from the operation of the STTM using a matched allocation process.[2] Alternatively, Jemena can procure gas for its operational requirements from the Sydney STTM, either directly from the STTM or from a STTM user after withdrawal from the hub.

The final rule is consistent with the draft rule and Jemena's proposed rule, with some minor amendments to improve the clarity of the proposed rule and to reflect stakeholder feedback on the draft rule determination.

The final rule effectively moves the transitional matched allocation provisions, which were due to expire on 30 June 2015, from Schedule 1, to Part 20, of the National Gas Rules. This makes the matched allocation process a permanent arrangement in the National Gas Rules from 28 May 2015.[3]

The Commission is satisfied that the final rule will, or is likely to, contribute to the National Gas Objective as it will assist Jemena to better manage its obligations under its Access Arrangement and the gas Retail Market Procedures to replace unaccounted for gas in its distribution network, given the role of the distributor and particular treatment of unaccounted for gas in the NSW gas retail market.

The Commission's reasons for making the final rule are:

- Unaccounted for gas in the NSW gas retail market cannot be forecast accurately on a daily basis by Jemena, as there is limited daily metering information that is available to it that would facilitate more accurate daily forecasts and, therefore, gas nominations to the Australian Energy Market Operator by Jemena.

1 The NSW Gas Network consists of the NSW Distribution System, the Wilton-Newcastle trunk line, the Wilton-Wollongong trunk line and the Central West Distribution System.

2 The National Gas Rules (NGR) refers to the gas procured by Jemena as being "natural gas purchased by Jemena to meet the operational requirements of its STTM distribution system" (see rule 500A of the final rule). In effect, the gas procured by Jemena largely refers to "unaccounted for gas", which is a term used in Jemena's Access Arrangement. For the purpose of this final rule determination, "gas for operational requirements" includes "unaccounted for gas" unless otherwise specified.

3 Jemena's proposed rule also included removal of transitional provisions from the NGR that would allow BlueScope Steel to utilise the matched allocation process in certain circumstances until 31 August 2015. The NGR required that any proposal to extend BlueScope Steel's transitional provision beyond the expiry date required the parties to a registered matched allocation agreement to have applied to the Australian Energy Market Operator (AEMO) before 31 August 2014 to extend the period of registration of that agreement beyond 31 August 2015.

- The overall quantity of unaccounted for gas is relatively small as a proportion of total network quantities.[4]
- To be able to participate effectively in the STTM and appropriately manage any potential exposure to trading risk, trading participants need to have the ability to accurately forecast their gas supplies to, or withdrawals from, the hub. This requires trading participants to have access to reliable and updated information as a basis for their decision-making. In light of these considerations, including the reasons cited above, managing unaccounted for gas quantities solely through the Sydney STTM could potentially be more challenging for Jemena, as compared to the matched allocation process.

On the basis of those factors outlined above, the Commission considers ongoing access to the matched allocation process is likely to assist Jemena to better manage its obligations under the Access Arrangement and gas Retail Market Procedures, with respect to unaccounted for gas for the NSW Gas Network.

4 According to Jemena, since 1996, the levels of unaccounted for gas in the NSW Gas Network have varied between 1.9 and 2.7 per cent of receipts in a year. See Jemena Gas Network (NSW) Ltd, *2015-2020 Access Arrangement Information*, Appendix 7.5, Unaccounted for gas methodology and justification, page 2.

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1 Jemena's rule change request

1.1 The rule change request

On 15 September 2014, Jemena Gas Networks (NSW) Ltd (Jemena) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to the matched allocation process.[5]

The matched allocation process is a process specified in the National Gas Rules (NGR) that excludes gas quantities, supplied to Jemena for operational requirements for its NSW Gas Network,[6] from the settlement of the Sydney Short Term Trading Market (STTM). This process allows Jemena to manage its Access Arrangement and NSW gas retail market obligations for the supply of “unaccounted for gas” (UAG) to the NSW Gas Network, without impacting on STTM operations.

The provisions in the NGR refer to the gas procured by Jemena as being “natural gas purchased by Jemena to meet the operational requirements of its STTM distribution system”.[7] In effect, the gas procured by Jemena under this provision largely refers to UAG, which is a term used in Jemena’s Access Arrangement and describes the gas that is lost in Jemena’s distribution network whilst under its custody. For the purpose of this final rule determination, "gas for operational requirements" includes UAG unless otherwise specified.

The matched allocation process had been a transitional provision in the NGR that, until now, was set to expire on 30 June 2015. Upon expiry, Jemena would have been required to manage its ongoing UAG obligation for the NSW Gas Network by sourcing gas, either directly or indirectly, from the Sydney STTM.

Jemena’s rule change request sought to amend the NGR so that the matched allocation process was a permanent arrangement in the NGR with no expiry date.

1.2 Rationale for rule change request

In its rule change request, Jemena identified two key issues with allowing the NGR transitional provision for the matched allocation process to expire on 30 June 2015.

Higher costs for unaccounted for gas

If the transitional provision in the NGR was allowed to expire on 30 June 2015, Jemena considered that it would have to procure gas for its operational requirements either directly from the STTM or from a STTM user after withdrawal from the hub. Jemena submitted that the cost of procuring these gas quantities from the STTM would likely be higher, compared to the cost of procuring the same gas quantities outside the STTM and

5 Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014.

6 The NSW Gas Network consists of the NSW Distribution System, the Wilton-Newcastle trunk line, the Wilton-Wollongong trunk line and the Central West Distribution System.

7 See clause 26(1)(a) of the NGR. Note, the new definition of “matched allocation agreement” in rule 364 adopts the same wording as that set out in clause 26(1)(a).

excluding them from STTM settlements under the matched allocation process, because of the potential trading risk that a STTM trading participant could be exposed to.[8]

Incentives and the efficient operation of the STTM

Jemena reasoned that UAG is distinct from other types of gas bought and sold in the STTM, as this gas is used for the safe and reliable operation of the distribution pipeline. In particular, Jemena stated that it could not manage UAG to respond to price signals or incentives under the STTM deviation pricing framework.

Also, Jemena considered that it is not in a position to respond to daily price signals in the STTM in the same way as other STTM trading participants. For example, Jemena considered that it would not be able to curtail its demand for UAG in response to deviation pricing, as this would place the integrity of the distribution pipeline at risk.

1.3 Solution proposed in the rule change request

Jemena's proposal was for the transitional provisions and associated definitions, as set out in clauses 13, 26 and 27 of Schedule 1 of the NGR,[9] to be moved into Part 20 of the NGR and the expiry date removed.

This would allow Jemena to continue to use the matched allocation process beyond 30 June 2015. Jemena set out the specific clauses to be moved into Part 20 of the NGR as part of its proposed rule.[10]

Jemena's proposed rule also included removal of the transitional provisions of the NGR that allow BlueScope Steel to utilise the matched allocation process in certain circumstances until 31 August 2015. The NGR[11] requires that any proposal to extend BlueScope Steel's transitional provision beyond the expiry date of 31 August 2015 requires the parties to a registered matched allocation agreement to have applied to the Australian Energy Market Operator (AEMO) before 31 August 2014 to extend the period of registration of that agreement.[12]

8 Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, pp 11- 12.

9 See clauses 13, 26 and 27 of Schedule 1 of the NGR. These provisions will be replaced by the rules 500A and 500B of the final rule.

10 Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, page 13.

11 See clause 26(10), Schedule 1 of the NGR. This clause will be replaced by the rules 500A and 500B of the final rule.

12 Clause 26(10) of the NGR requires that any application for extension to BlueScope Steel's exemption is made to AEMO before 31 August 2014, and the date that is one year before the expiry of any extended period previously determined under the clause. According to previous discussion with AEMO regarding the matched allocation process for BlueScope Steel, as the minimum time period required for this consultation process would not have met the 31 August 2015 expiry date of the transitional provision, it would not have been possible to extend the transitional provision for BlueScope Steel in the NGR. Also in previous discussion with BlueScope Steel, the matched allocation process was not being used as its feedback flow control requirements were being satisfied in other ways with the relevant network service providers.

1.4 Relevant background

1.4.1 Matched allocation process

This section explains how the matched allocation process works under the current transitional arrangements set out in the NGR.[13]

Exempted parties

The NGR currently contains transitional provisions that exempt defined parties from procuring gas through the Sydney STTM only.[14]

Exemptions apply for:

- Jemena, for the purposes of procuring gas for its operational requirements for the NSW Gas Network; and
- BlueScope Steel, in relation to gas supplied under a feedback flow control arrangement at Port Kembla.[15]

This exemption enables these entities to procure gas outside the STTM and excludes such quantities from STTM settlements under a matched allocation process. The exclusion of the gas quantities means they are not subject to STTM pricing and other charges.

Matched allocation agreements

Clause 26 of Schedule 1 of the NGR[16] allows Jemena and BlueScope Steel to enter into separate matched allocation agreements with one or more STTM shippers (e.g. gas wholesalers) and one or more STTM pipeline operators (e.g. gas transmission pipeline operators) for the provision of a matched allocation quantity of gas. These arrangements are required to be registered with AEMO.

Under a matched allocation agreement, one or more STTM shippers agree to provide a matched allocation quantity of gas to Jemena prior to the entry point of the Sydney STTM (i.e. at the 'city gate'). The matched allocation quantity of gas delivered to the Sydney STTM hub for each gas day by the STTM shipper(s) is required to match the matched allocation quantity of gas withdrawn from the Sydney STTM hub that same gas day by Jemena.

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13 See clauses 13, 26 and 27 of Schedule 1 of the NGR for further detail. These clauses will be replaced by the rules 500A and 500B of the final rule.

14 See clauses 26 and 27, Schedule 1, NGR for further detail. For a detailed description of the matched allocation process, also see Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014.

15 The feedback flow control mechanism is a mechanism that automatically injects amounts of gas from the Eastern Gas Pipeline into the Port Kembla local area distribution network equivalent to that withdrawn by BlueScope Steel. The purpose of this mechanism is to prevent supply disruptions to other customers on the network and effectively mimic a direct and dedicated connection from the Eastern Gas Pipeline to BlueScope Steel. For more detail see Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, page 7.

16 See clause 26, Schedule 1, NGR for further detail. This clause will be replaced by the rules 500A and 500B of the final rule.

Effectively, this means that the matched allocation quantity of gas withdrawn from the STTM hub by Jemena is also its deemed matched allocation quantity nomination to the STTM hub by the shipper(s). The matched allocation quantity of gas delivered under this arrangement is excluded from settlement in the STTM.

1.4.2 Obligations in the provision of UAG

Access Arrangement

Under the terms of Jemena's Access Arrangement for the NSW Gas Network, it is required to replace any gas lost whilst in its custody.[17] This type of gas is referred to as UAG.[18] UAG is calculated as the difference between the measured quantity of gas entering the network system (receipts) and metered deliveries (withdrawals).

Jemena's Access Arrangement sets out a high level incentive framework that is designed to encourage it to minimise the cost of procuring UAG. The incentive framework consists of a price incentive[19] and volume incentive.[20] Using a forecast UAG price, forecast gas demand and the UAG benchmark,[21] the Australian Energy Regulator (AER) sets Jemena's operational expenditure allowance for UAG over the regulatory control period.

Jemena's Access Arrangement also includes a cost pass through mechanism, which means that Jemena does not face any price risk associated with the procurement of UAG to meet its UAG requirements. Any differentials between the actual and forecast UAG price, or actual or forecast gas demand, are reflected in annual network tariff variations. There is no adjustment to network tariffs if the UAG benchmark is above, or below, the actual UAG level achieved by Jemena. This means that Jemena can benefit under the Access Arrangement where its actual UAG level is below the UAG benchmark, or incur a cost where the actual UAG level is above the UAG benchmark.

NSW Gas Retail Market Procedures

The NSW gas Retail Market Procedures require Jemena to nominate a UAG quantity to AEMO on a daily basis, and notify AEMO that this quantity of gas has been delivered to

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17 See clauses 9.4, 9.5(d) and 9.5(e) of Jemena's Reference Service Agreement.

18 There are a range of factors that may contribute to UAG, including metering uncertainty and degradation, leakage and theft. According to Jemena, since 1996, the levels of UAG in the NSW Gas Network have varied between 1.9 and 2.7 per cent of receipts in a year. See Jemena Gas Network (NSW) Ltd, *2015-2020 Access Arrangement Information*, Appendix 7.5, Unaccounted for gas methodology and justification, page 2.

19 Jemena's Access Arrangement requires it to use an open competitive process to source a UAG supplier for its UAG requirements, or to source its UAG requirements from the STTM.

20 The AER sets a UAG benchmark that is a percentage rate of the total network receipts. For the 2010-15 regulatory control period, the UAG benchmark is set at 2.34 per cent. In its 2015-2020 determination process, Jemena proposed a separate benchmark leakage rate for its customer groups - one benchmark for its non-daily metered customers (i.e., residential and small commercial), and another benchmark for its daily metered customers (i.e., larger, industrial customers). In its draft determination, the AER accepted having separate benchmarks. The 2.24 per cent benchmark rate represents the average rate based upon forecast volumes. See AER, *Draft Decision, Jemena Gas Networks (NSW) Ltd, Access Arrangement 2015-2020,* Attachment 7 - Operating Expenditure, pp 25-28.

21 The efficient level of UAG for a particular gas network will depend on the features of the network concerned and ought to be determined in relation to its own condition and circumstances.

the market for that gas day. Jemena's nominated UAG quantities are excluded from the retail market allocations and, as a result of the matched allocation process, from STTM settlements.[22]

1.5 Commission's rule making process to date

On 18 December 2014, the AEMC published Jemena's rule change request and an AEMC consultation paper identifying specific issues or questions for consultation. Submissions to the consultation paper closed on 29 January 2015. Four submissions and a supplementary submission were received in response.

On 12 March 2015, the AEMC published a draft rule determination, including a draft rule, in relation to the rule change request. Submissions to the second round of consultation closed on 23 April 2015. Two submissions were received in response.

All stakeholder submissions are available on the AEMC website (www.aemc.gov.au).

Where relevant to the discussion, the Commission has summarised the issues raised in submissions as part of its analysis in this final rule determination.

22 The process for allocating UAG quantities varies across jurisdictional retail gas markets, the STTM hubs and the Victorian Declared Wholesale Gas Market. More detail on jurisdictional variations was included in the Commission's draft rule determination. See AEMC, Draft rule determination, *Matched allocation process in the STTM rule change*, 12 March 2015.

2 Final rule determination

2.1 Commission's final determination

The Commission has determined to make a final rule. The final rule makes the matched allocation process a permanent arrangement in the NGR.

The final rule is published with this final rule determination. The key features of the rule are described in this section, as is the Commission's reasons for making this final rule determination.

2.1.1 Final rule

The Commission's final rule allows Jemena to continue to utilise either of two available procurements methods for the purpose of meeting its obligations under its Access Arrangement and Retail Market Procedures for the NSW gas retail market, with respect to UAG for the NSW Gas Network.

The final rule is consistent with the draft rule and Jemena’s proposed rule, with only a minor drafting amendment to leave the current definition of "Sydney hub" in rule 372 in the NGR unaltered, as detailed in section 3.1.3.[23]

The final rule effectively moves the transitional provisions relating to the matched allocation process for Jemena, which were due to expire on 30 June 2015, from Schedule 1, to Part 20, of the NGR and omits the expiry date. This makes the matched allocation process a permanent arrangement in the NGR from 28 May 2015.

In summary, the Commission’s final rule provides a mechanism which enables Jemena to continue to procure gas to meet operational requirements of its NSW Gas Network outside the STTM by:

- enabling Jemena to enter into a matched allocation agreement in relation to quantities of gas procured to meet its operational requirements;
- requiring Jemena to register its matched allocation agreements with AEMO;
- creating a new definition for ‘matched allocation agreement’ that is specific to the activities of Jemena procuring gas for operational requirements for its NSW Gas Network; and
- providing a transitional provision that deems existing registered matched allocation agreements to be registered under the new permanent arrangements.

The final rule also removes the transitional provisions relating to BlueScope Steel from the NGR, which were due to expire on 31 August 2015.[24] Given that the due date for an application to be made to AEMO seeking extension to BlueScope Steel's exemption under the NGR has lapsed, there does not appear to be any detrimental impact on

23 This drafting issue was raised by Jemena in its submission to the draft rule determination. See Jemena, *Draft rule determination submission*, page 1.

24 See clause 26(9)(b) of the NGR. This clause will be replaced by the rules 500A and 500B of the final rule.

BlueScope Steel as a result of making the final rule.[25] AEMO has indicated to the Commission that it has not received a request to extend the operation of these provisions in the NGR.

The Commission’s reasons for making this final rule determination are set out in Chapter 3. Further information on the legal requirements for making this final rule determination is set out in Appendix A.

2.2 Rule making test

Under section 291(1) of the National Gas Law (NGL), the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the National Gas Objective (NGO).

The NGO is set out under section 23 of the NGL as follows:

> “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.”

For this rule change request, the relevant aspect of the NGO is:

- Efficient operation and use of natural gas services with respect to the price of natural gas.

Having regard to the issues raised by Jemena in its rule change request, the Commission is satisfied that the final rule will, or is likely to, contribute to the NGO. It will assist Jemena to better manage its Access Arrangement and gas Retail Market Procedures obligations to replace UAG in its distribution network, given the role of the distributor and particular treatment of UAG in the NSW gas retail market.

The Commission's reasons are outlined below:

- UAG in the NSW gas retail market cannot be forecast accurately on a daily basis by Jemena, as there is limited daily metering information that is available to it that would facilitate more accurate daily forecasts and, therefore, gas nominations to AEMO by Jemena.
- The overall quantity of UAG is relatively small as a proportion of total network quantities.[26]
- To be able to participate effectively in the STTM and appropriately manage any potential exposure to trading risk, trading participants need to have the ability to accurately forecast their gas supplies to, or withdrawals from, the hub. This requires trading participants to have access to reliable and updated information as a basis for their decision-making. In light of these considerations, including the reasons cited above, managing UAG quantities solely through the Sydney STTM

25 Clause 26(10) of the NGR requires that any application for extension of BlueScope Steel's exemption must be made to AEMO before 31 August 2014.

26 According to Jemena, since 1996, the levels of UAG in the NSW Gas Network have varied between 1.9 and 2.7 per cent of receipts in a year. See Jemena Gas Network (NSW) Ltd, *2015-2020 Access Arrangement Information*, Appendix 7.5, Unaccounted for gas methodology and justification, page 2.

could potentially be more challenging for Jemena, as compared to the matched allocation process.

Given that Jemena is exposed to UAG procurement risk, under its Access Arrangement for NSW Gas Networks and Retail Market Procedures for the NSW gas retail market, including the matched allocations process in the NGR allows Jemena to better manage these obligations.

2.3 Assessment approach

In assessing whether Jemena's rule change request, and any final rule, is likely to promote the efficient operation and use of natural gas services, the Commission considered the following principle:

- *Better managing UAG regulatory obligations*: A party is likely to be able to better manage its regulatory obligations when it has access to an appropriate level of information so as to inform its decision-making. Access to relevant information is more likely to provide the party with greater control over any decision-making activities, and may also facilitate the better management of risk associated with discharging regulatory obligations.

In the context of this rule change request, the matched allocation process currently provides Jemena with one of two possible options for it to manage its UAG obligations; the other possible option being for Jemena to manage its UAG obligation via the STTM.

The proposed rule has been assessed against the relevant counterfactual arrangements. In this case, the counterfactual arrangement would be the expiry of the transitional provision in the NGR on 30 June 2015 relating to the matched allocation process, and therefore, requiring Jemena to procure its UAG requirements (either directly or indirectly) from the Sydney STTM.

2.4 Strategic priority

This final rule determination relates to the second of the AEMC's strategic priorities which is to promote the development of efficient gas markets (the gas priority). The final rule allows Jemena to better manage its obligations under its Access Arrangement and Retail Market Procedures for the NSW gas retail market, with respect to UAG for the NSW Gas Network. This may lead to a more efficient utilisation of the NSW gas distribution network and, in turn, promote more efficient operation and use of natural gas services.

3 Commission's conclusions and assessment

This chapter sets out the Commission's conclusions, Jemena's view, stakeholder views and the Commission's analysis for this rule change request.

3.1 Better managing UAG obligations

3.1.1 Commission's conclusion

Allowing Jemena ongoing access to the matched allocation process is likely to assist it to better manage its obligations under the Access Arrangement and Retail Market Procedures for the NSW gas retail market, with respect to UAG for the NSW Gas Network.

3.1.2 Jemena's view[27]

Jemena stated that if the matched allocation process expires on 30 June 2015, it will have to procure its gas used for operational requirements either directly from the STTM, or from a STTM user after withdrawal from the hub. Jemena argued that it will, therefore, have to pay a higher price for gas used for its operational requirements than it currently does purchasing gas outside the STTM and utilising the matched allocation process.

Jemena submitted that it would face the following STTM fees and charges should it be required to procure gas from the STTM (either directly, or indirectly if it purchases gas from another STTM user):

- STTM participation fees, which are currently recovered by AEMO through an activity fee ($/GJ withdrawn) and a fixed fee ($/day per hub per ABN). Jemena considered that the STTM participation fees alone would equate to an additional impost on network users of $0.90-0.96 million over a five year period.
- Any costs associated with meeting AEMO’s prudential requirements for the STTM.
- Deviation and/or market schedule variation charges, to the extent that any quantities nominated for its operational requirements on a particular day deviate from the ex-ante market schedule.
- Any other STTM- related administrative costs.

Jemena considered that it will be exposed to more risks under the STTM procurement option. This is because ring fencing provisions, in sections 137 and 139 of the NGL, prohibit Jemena from buying and selling gas, except to the extent it is necessary for the safe and reliable operation of the pipeline. Jemena argued that, unlike other STTM participants, it could not therefore hedge against:

- price variability, by becoming a seller in the market; and
- the cost of deviations, by becoming a Market Operator Service provider.

27 Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014.

3.1.3 Stakeholder views

The Commission received four submissions and one supplementary submission from stakeholders in response to the AEMC's consultation paper and Jemena's proposed rule. Submissions were received from AGL, Lumo Energy, GDF SUEZ Australian Energy (GDF) and Jemena.

The Commission also received two submissions in response to the draft rule determination and draft rule, from AGL and Jemena.[28]

Matched allocation process

Stakeholders were broadly supportive of Jemena's proposed rule to make the matched allocation process a permanent provision in the NGR.

On the issue of how Jemena manages its UAG obligations, and whether it was appropriate for Jemena to procure UAG through the STTM, Jemena referred to its rule change request. Jemena's position on this issue is summarised in section 3.1.2 above.

In its submissions to the consultation paper and draft rule determination, AGL[29] was supportive of making the matched allocation process a permanent provision in the NGR. AGL agreed with Jemena that, because UAG forecasts are based on operational conditions, Jemena is not in a position to respond to price signals provided by the STTM. AGL also noted that requiring Jemena to procure UAG from the STTM would move Jemena away from its core business and would likely result in uncertain and potentially higher UAG procurement costs.

Lumo Energy[30] supported Jemena's proposed rule as being consistent with the NGO. Lumo Energy noted that continuation of the matched allocation process would ensure that the current efficient method of procuring UAG would continue for Jemena for an indefinite period.

Unaccounted for gas in New South Wales

GDF[31] stated that it would support a temporary extension of the current transitional matched allocation in view of other possible reforms. However, GDF considered that the matched allocation process is made possible in the NSW gas retail market only through a quirk in the definition of UAG (that is, being based on nominations and not usage), which relieves Jemena of the need to manage its gas usage, and leaves other gas participants the task of making up the difference in a non-transparent manner.

GDF stated that it would prefer that all STTM participants be subject to the same set of market rules and information to ensure consistent commercial drivers and efficient outcomes including responsibility for managing deviations and own gas usage.

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28 AGL, *Draft rule determination submission*, 30 March 2015; Jemena, *Draft rule determination submission*, 20 March 2015.

29 AGL, *Consultation paper submission,* 19 January 2015; *Draft rule determination submission*, 30 March 2015.

30 Lumo Energy, *Consultation paper submission,* 29 January 2015.

31 GDF SUEZ, *Consultation paper submission,* 29 January 2015.

In Jemena's response to this issue in its supplementary submission,[32] Jemena noted that while there are differences in some aspects of the design of the STTM and the Victorian Declared Wholesale Gas Market that may affect parties operating in multiple markets, the matched allocation process was not one of these. This is because:

- the only parties that are affected by the matched allocation process are Jemena, the shipper, the facility operator and AEMO; and
- the process of excluding the matched allocation quantities from the STTM occurs outside the market.

Jemena's view was that the matched allocation process has no bearing on the trading activities of other STTM participants.

Rule drafting matters

In its submission to the draft rule determination and draft rule, Jemena submitted that the proposed amendment of rule 372 of the NGR in the draft rule should be omitted. Rule 372 of the NGR describes the composition of the distribution system at the "Sydney hub" at its commencement.[33] Jemena noted that in the draft rule, the use of the definition of "Jemena" in rule 372 unintentionally amended the way in which the Sydney hub was defined.

The Commission agrees that the new definition of "Jemena" is not appropriate for use in rule 372 and for this reason the original definition of "Jemena" has been re-instated in the final rule for the purpose of defining the "Sydney hub" in rule 372. A separate definition of "Jemena" has been included in the final rule for the purpose of defining "matched allocation agreement".

3.1.4 Commission's assessment

In assessing Jemena's rule change request, the Commission considered the specific obligations that Jemena has in regard to the management of UAG for the NSW Gas Network. Jemena is required, under the terms of its Access Arrangement for the NSW Gas Network, to replace any gas lost whilst in its custody.[34] The total cost of UAG is a product of the volume of UAG, and the replacement cost of gas purchased by Jemena. The Access Arrangement provides for a cost pass through arrangement in recognition that the replacement cost of gas is outside Jemena's control.[35]

The Retail Market Procedures for the NSW gas retail market place an obligation on Jemena to nominate a daily UAG quantity to AEMO. Unlike the Adelaide and Brisbane STTM hubs, in the Sydney STTM, UAG quantities are not allocated to retailers through the gas retail market allocation process. Instead, the NSW Retail Market Procedures require Jemena to nominate a daily UAG quantity to AEMO, and notify AEMO that this quantity of gas has been delivered to the market for that day. Jemena's nominated UAG

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32 Jemena, *Supplementary submission*, 10 March 2015.

33 Jemena, *Draft rule determination submission*, page 1, 20 April 2015.

34 See clauses 9.4, 9.5(d) and 9.5(e) of the Jemena's Reference Service Agreement.

35 See Jemena Gas Network (NSW) Ltd, *2015-2020 Access Arrangement Information*, Appendix 7.5, Unaccounted for gas methodology and justification, page 1.

quantities are excluded from the retail market allocations and, as a result of the matched allocation process, from STTM settlements.

This approach to nominating daily UAG quantities in the NSW gas retail market has a number of implications for Jemena, should it be required to procure UAG solely through the STTM, and not have the option to utilise the matched allocation process as it currently does.

If Jemena were to procure its UAG requirements (either directly or indirectly) from the STTM, it would still be required to forecast and nominate its required daily UAG quantities to AEMO. Compared to the matched allocation process, Jemena would potentially be exposed to STTM penalties associated with the deviation pricing framework for not acting in accordance with its daily gas schedule.

The ability to accurately forecast gas supplies to, or withdrawals from, a STTM hub, and therefore manage any potential exposure to STTM trading risks, relies on STTM participants having access to reliable and updated information as a basis for decision-making. This type of information also supports a STTM trading participant's decision to vary its daily forecast through a market schedule variation process.

The nature of UAG, in respect of the NSW Gas Network, is such that it can be forecast more accurately on a yearly basis, using historic metering data as a basis for forecasting longer term trends. Forecasting UAG on a daily basis poses a greater challenge for a distributor as there may be delays in obtaining information regarding the state of the distribution pipelines (e.g. damage, metering, leakage and theft related issues). Any delay in obtaining this type of information may affect the accuracy of daily UAG forecasts and, therefore, the accuracy of daily UAG nominations to AEMO.

In addition to these issues, the overall quantity of UAG required by Jemena is relatively small as a proportion of total network quantities. This means that purchasing UAG quantities only in the STTM may be more difficult to manage by Jemena, compared to other STTM trading participants who manage larger gas trading portfolios where the risk of inaccurate forecasts may be offset to a degree within the portfolio.

On the basis of those factors outlined above, the Commission considers that allowing Jemena ongoing access to the matched allocation process is likely to assist it to better manage its obligations under the Access Arrangement and Retail Market Procedures for the NSW gas retail market, with respect to UAG for the NSW Gas Network.

Abbreviations

AEMC or Commission	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Jemena	Jemena Gas Networks (NSW) Ltd
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
STTM	Short Term Trading Market
UAG	unaccounted for gas

A Legal requirements under the NGL

This appendix sets out the relevant requirements under the National Gas Law (NGL) for the AEMC in making this final rule determination.

A.1 Final rule determination

In accordance with sections 311 and 313 of the NGL, the Commission has made the final rule determination and associated final rule in relation to the rule proposed by Jemena.

The Commission’s reasons for making the final rule determination are set out in Chapter 3. A copy of the final rule is published with this final rule determination.

A.2 Power to make the rule

The Commission is satisfied that the rule, as made, falls within the subject matter about which the Commission may make rules.

The rule falls within section 74 of the NGL. More specifically, it relates to:

- the provision of pipeline services;
- AEMO's Short Term Trading Market (STTM) functions and the operation of a STTM of an adoptive jurisdiction;
- the activities of Registered participants, users, end users and other persons in a regulated gas market; and
- the safety, security and reliability of pipelines.

A.3 Commission's considerations

In assessing the rule change request, the Commission has considered:

- the Commission's powers under the NGL to make the rule;
- the rule change request;
- stakeholder submissions received during the first and second rounds of consultation;
- the fact that there is no relevant Ministerial Council on Energy (MCE) statement of policy principles;[36] and
- the Commission's analysis as to the ways in which the final rule will or is likely to, contribute to the National Gas Objective (NGO).

A.4 Other legal requirements

A.4.1 Compatibility with AEMO's declared system functions

Under section 295(4) of the NGL, the Commission may only make a rule that has the effect with respect to an adoptive jurisdiction if it satisfied that the proposed rule is

36 Under section 73 of the NGL, the AEMC must have regard to any relevant MCE statement of policy principles in making a rule

compatible with the proper performance of AEMO's declared system functions.[37] The rule as made is compatible with AEMO's declared system functions because it does not affect the performance of those functions.

A.4.2 Participating jurisdictions

The rule amends Part 20 of the National Gas Rules (NGR) which relates to the operation of STTMs and only affects the STTM at the Sydney hub.[38]

A.4.3 Civil penalty and conduct provisions

The rule omits clause 26(4) of Schedule 1 of the NGR which is currently classified as a conduct provision under the National Gas (South Australian) Regulations. The Commission intends to recommend to the COAG Energy Council that rule 500A(3) (which is the same form as existing rule 26(4) of Schedule 1) be classified as a conduct provision.

37 AEMO's declared system functions are specified in section 91BA of the NGL.

38 Under s.21 of the NGL, the participating jurisdictions are the States, Commonwealth, the Australian Capital Territory and the Northern Territory. The final rule does not apply in Western Australia as it does not fall within the subject matters about which the Commission may make rules under the National Gas Access (WA) Act 2009 of Western Australia.