RULE CHANGE

Australian Energy Market Commission

RULE DETERMINATION

National Gas Amendment (STTM Brisbane participant compensation fund) Rule 2013

Rule Proponent

AEMO

28 February 2013

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About the AEMC

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two main functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

Summary

The Commission has determined to make a rule in response to the short term trading market (STTM) Brisbane hub participant compensation fund (PCF) rule change request submitted by the Australian Energy Market Operator (AEMO) on 10 August 2012.

The National Gas Rules (NGR) will be amended in order to increase the dollar amount specified in the rules for the Brisbane hub PCF from $100,000 to $450,000 and to increase the maximum PCF amount that can be recovered from participants in one year from $50,000 to $225,000.

The PCF is a co-insurance scheme that provides compensation to STTM trading participants for costs incurred as a result of AEMO making a scheduling error in operating the STTM. The PCF is funded by trading participants and is managed by AEMO. Separate PCF accounts have been established for the STTM Adelaide, Brisbane and Sydney hubs.

In its rule change request, AEMO submitted that the Brisbane hub PCF amount specified in the current rules is too small to cover potential scheduling error costs. The current PCF amount was based on forecasts of the distribution connected retail load and did not include the transmission connected industrial load. Because total gas withdrawals for all Brisbane hub users (that is, distribution connected and transmission connected users) are almost five times higher than originally forecast, there is potential for scheduling error costs to be greater than the amount covered by the current PCF.

The Commission's reasons

The Commission has determined to make a final rule which increases the PCF amount for the STTM Brisbane hub from $100,000 to $450,000. The final rule is the same as the rule proposed by AEMO, with some modifications to the transitional provisions. The Commission is satisfied that the final rule will, or is likely to, contribute to the achievement of the national gas objective (NGO).

In coming to this view, the Commission considered the impact of making the rule on trading participants and on the operation of the market as a whole. In assessing these impacts, the Commission concluded that the benefits arising from the rule change, while marginal, still outweigh the costs associated with increasing the PCF amount. It is expected that the final rule will:

- reduce the likelihood of significant and unexpected costs incurred as a result of scheduling error; and
- decrease uncertainty and financial risk faced by trading participants.

By reducing the risks faced by trading participants, the final rule may decrease costs which is likely to benefit consumers of natural gas in terms of price (although this benefit is likely to be marginal).

The final rule will commence on 7 March 2013, with transitional provisions to enable AEMO to apply the new PCF amount from 1 July 2013.

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1 AEMO's rule change request

1.1 The rule change request

On 10 August 2012, the Australian Energy Market Operator (AEMO or proponent) submitted a request to the Australian Energy Market Commission (AEMC or Commission) to make a rule regarding the participant compensation fund (PCF) for the short term trading market (STTM) at the Brisbane hub (rule change request).

The rule change request proposed to increase the dollar amount specified in the rules for the Brisbane hub PCF from $100,000 to $450,000. It also proposed to increase the maximum amount that can be recovered from participants in one year from $50,000 to $225,000.

The proponent requested that the AEMC assess its rule change request on an expedited basis.

1.2 Rationale for the rule change request

The proponent sought to increase the dollar amount of the Brisbane hub PCF because it believed that the current amount does not reflect the size of the Brisbane market. AEMO submitted that:[1]

- The current PCF amount is based on forecasts of the retail market load for the Brisbane hub and does not take into account the much larger load attributed to the transmission connected industrial users. AEMO estimated that transmission connected STTM users account for 80 per cent of the total withdrawals at the Brisbane hub. Because of this, it argued that the current PCF funding level is approximately only 20 per cent of the appropriate size, based on total withdrawals.

- As the total gas withdrawals for all Brisbane STTM users (that is, distribution and transmission connected users) is almost five times higher than originally forecast (based on distribution connected users only) then there is the potential for scheduling error costs to be greater than the amount covered by the current PCF.

- The proposed increase in the maximum PCF amount for the Brisbane hub is based on a calculated proportion of the maximum PCF amount for the Sydney hub. Based on current forecast gas demand for 2012–2013, AEMO estimated that the Brisbane STTM is approximately 68 per cent the size of the Sydney STTM. Given that the Sydney PCF is $670,000 and adjusting for the size of gas demand, AEMO suggested that the Brisbane PCF should be $454,075. AEMO has rounded this value to $450,000.

1 AEMO, rule change request, 10 August 2012, pp1-6.

AEMO considered that the proposed rule change will contribute to the national gas objective (NGO) as it ensures trading participants have at least the same level of scheduling error risk mitigation in the Brisbane hub as they do in the Sydney and Adelaide hubs. AEMO argued that this will ensure that each STTM hub operates efficiently and without distortion.[2]

1.3 Solution proposed in the rule change request

The proponent proposed to resolve the issues referred to above by making a rule that:

- increases the maximum PCF amount for the Brisbane hub that can be recovered from participants in one year, from $50,000 to $225,000; and

- increases the maximum PCF amount for the Brisbane hub, from $100,000 to $450,000.

These proposed changes relate to rule 452(3)(a) and (b) of the National Gas Rules (NGR) respectively.

AEMO has also proposed transitional provisions that provide for the proposed rule to become effective on 1 July 2013. This would allow for the new PCF amount to be applied to the 2013–2014 financial year.

1.4 Relevant background

1.4.1 Scheduling in the STTM

In the STTM, gas is traded a day before it is scheduled to be flowed along the pipeline to be distributed to users (that is, it is a 'day ahead' market). The day before the gas is scheduled to flow (that is, the gas day) pipeline operators submit pipeline capacity information to AEMO, who publishes this data. STTM trading participants[3] can then place bids to buy quantities of gas at the hub and STTM shippers can place offers to sell quantities of gas to the hub.

On the basis of this information, via an automated process, AEMO then matches offers and bids, determines the (ex-ante) market price and draws up the market schedules for the flow of gas to and from the hub for the gas day. The ex-ante market price is the price that is applied to all gas that is allocated through the hub on the gas day.

The market schedule is published by AEMO ahead of the gas day so that shippers can use this information to nominate the quantity of gas they require from each pipeline operator (a process which occurs outside of the STTM). Pipeline operators then prepare

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2 AEMO, rule change request, 10 August 2012, p6.

3 This term refers to either STTM shippers or STTM users (rule 364 of the NGR).

pipeline schedules, which detail the quantities of gas that are scheduled to be flowed from each STTM facility.[4]

On the gas day, pipeline operators deliver gas to the hub and users withdraw gas at the hub. However, the quantities delivered to or withdrawn from the hub generally will not match the ex-ante market schedule. The differences between quantities of gas allocated to shippers and users and the market schedule (known as deviations) are physically balanced by pipeline operators maintaining pressures at the distribution gates within agreed operating ranges. The STTM settles this balancing of gas under AEMO's market operator service (MOS) arrangements.

If normal STTM mechanisms are unlikely to achieve this balance, AEMO can call on contingency gas to safeguard the continuity of supply. Contingency gas arrangements may involve increasing supply and reducing demand in an under-supply situation, or reducing supply and increasing demand in an over-supply situation. In such circumstances, AEMO schedules gas from trading participants who have submitted bids and offers for contingency gas on that gas day by merit order (in the order of increasing price for offers in an under-supply situation and of decreasing price for bids in an over-supply situation).

1.4.2 PCF

If AEMO makes an error in scheduling (either in the ex-ante market or for contingency gas) which results in a trading participant being scheduled out of merit order, then the trading participant is entitled to be compensated for losses incurred. The participant is only entitled to compensation for direct losses and not for opportunity costs. Compensation is paid out by AEMO from the PCF applicable to that hub and the total amount payable is capped by the balance of the PCF.

AEMO describes the PCF as a co-insurance scheme for trading participants. There are separate PCFs for each hub which are managed by AEMO. Trading participants fund the PCFs based on a fee per gigajoule (GJ) for gas withdrawn at each hub.[5]

In 2009, prior to the commencement of the STTM, the Gas Market Leaders Group agreed to the establishment of two PCF accounts (one for the Sydney hub and the other for the Adelaide hub) with a total balance of $1 million. This was allocated between the two hubs ($670,000 for the Sydney hub and $330,000 for the Adelaide hub).[6] In 2010 prior to the establishment of the STTM at Brisbane, the PCF for the Brisbane hub was set at $100,000 which was based on forecast withdrawals of the distribution network connected users (that is, the Brisbane retail load).[7]

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4 A STTM term for a transmission pipeline, hub-connected storage facility or hub-connected production facility (rule 364 of the NGR).

5 AEMO, rule change request, 10 August 2012, p2.

6 AEMO, rule change request, 10 August 2012, p10.

7 AEMO, rule change request, 10 August 2012, p2.

The STTM Brisbane hub was initially designed to only include distribution network connected users. However in 2011, AEMO reviewed the application of the STTM to Brisbane prior to its commencement and identified the need to include transmission connected users for the provision of contingency gas. This, among other proposed rule changes related to the STTM Brisbane hub was the subject of a rule change request by AEMO to the AEMC.[8] The AEMC made these proposed rule changes in September 2011.[9] The STTM Brisbane hub (which includes distribution and transmission connected users) commenced operating in December 2011.

1.5 Commencement of rule making process

On 17 January 2013, the Commission published a notice under s. 303 of the National Gas Law (NGL) advising of its intention to commence the rule making process and consultation in respect of the rule change request. A consultation paper prepared by staff of the AEMC identifying specific issues or questions for consultation was also published with the notice under s. 303 of the NGL.

The rule change request was a request for a non-controversial rule, as defined in s. 290 of the NGL, as the rule would be unlikely to have a significant effect on a market for gas or the regulation of pipeline services.

Accordingly, the Commission commenced an expedited rule change process, subject to written requests not to do so. The closing date for receipt of written requests was 31 January 2013. As no requests were received, the rule change request has been considered under an expedited process in accordance with s. 304 of the NGL.

Submissions on the rule change request closed on 14 February 2013. A total of three submissions were received. These are available on the AEMC website.[10] A summary of the issues raised in submissions and the Commission's response to each issue is contained in Appendix A.

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8 AEMO, rule change proposal – STTM: Brisbane hub, cover letter, 1 April 2011, p1.

9 AEMC, *Final determination, National Gas Amendment (STTM Brisbane Hub) Rule 2011*, 15 September 2011.

10 www.aemc.gov.au

2 Final rule determination

2.1 Commission's determination

In accordance with s. 311 of the NGL, the Commission has made this final rule determination in relation to the rule proposed by AEMO. In accordance with s. 313 of the NGL, the Commission has determined to make the rule proposed by the rule proponent, with some modifications to the transitional provisions.

The Commission's reasons for making this final rule determination are set out in section 3.1.

The *National Gas Amendment (STTM Brisbane participant compensation fund) Rule 2013 No 1* (final rule) is published with this final rule determination. The final rule commences on 7 March 2013. Its key features are described in section 3.1.

2.2 Commission's considerations

In assessing the rule change request the Commission considered:

- the Commission's powers under the NGL to make the rule;
- the rule change request;
- submissions received during consultation;
- other information relevant to the rule change request; and
- the Commission's analysis as to the ways in which the proposed rule will or is likely to, contribute to the achievement of the national gas objective (NGO).

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles relating to this rule change request.[11]

2.3 Commission's power to make the rule

The Commission is satisfied that the final rule falls within the subject matter about which it may make rules, as set out in s. 74 of the NGL. More specifically, it relates to:

- the operation of a short term trading market of an adoptive jurisdiction (s. 74(1)(a)(va) of the NGL); and
- the activities of registered participants, users, end users and other persons in a regulated gas market (s. 74(1)(a)(vi) of the NGL).

11 Under s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule.

2.4 Rule making test

Under s. 291(1) of the 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 NGO. This is the decision making framework that the Commission must apply.

The NGO is set out in s. 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."

The Commission considers that the relevant aspect of the NGO for this rule change request is the efficient operation and use of natural gas services for the long term interest of consumers of natural gas.[12]

The Commission is satisfied that the final rule will, or is likely to, contribute to the achievement of the NGO because:

- it will reduce the likelihood of significant and unexpected costs incurred as a result of a scheduling errors;
- it will decrease uncertainty and financial risk faced by trading participants; and
- by decreasing trading participants' uncertainty the rule as made may marginally decrease costs which would be in the long term interests of consumers with respect to price.

2.5 Other requirements under the NGL

Under s. 295(4) of the NGL the Commission may only make a rule that has effect with respect to an adoptive jurisdiction if it is satisfied that the proposed rule is compatible with the proper performance of AEMO's declared system functions.

The Commission has considered this requirement and is satisfied that the rule as made will not impact on AEMO's declared network functions as it does not alter AEMO's statutory functions and duties as the only impact the final rule will have on AEMO is that AEMO will have to administer a larger Brisbane PCF.

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12 Under s. 291(2), for the purposes of s. 291(1) of the NGL, the AEMC may give such weight to any aspect of the NGO as it considers appropriate in all the circumstances, having regard to any relevant MCE statement of policy principles.

3 Commission's reasons

The Commission has analysed the rule change request and assessed the issues arising out of this rule change request. For the reasons set out below, the Commission has determined that a rule be made.

3.1 Assessment of issues and rule

In assessing this rule change request and considering submissions from stakeholders, the Commission considers that the substantive issues arising from the request are the benefits and costs to trading participants and the operation of the STTM Brisbane hub.

Benefits to the STTM

Increasing the PCF amount as proposed increases the likelihood that trading participants will be appropriately compensated for scheduling error loss. Increasing the likelihood that trading participants will be adequately compensated decreases the likelihood that they may face unexpected and significant costs at times, which in turn decreases their financial (particularly cash flow) risk.

If trading participants are adequately compensated for costs they may incur through scheduling errors, then they are better able to manage the risks of participating in the STTM. Participants will gain better insurance coverage over the long term. Greater certainty for trading participants could lead to lower costs for consumers of gas in the long term.

Costs to the STTM

Increasing the PCF amount as proposed requires that trading participants pay an additional charge until the new PCF maximum amount of $450,000 is fully funded. As the additional fee charged to trading participants is relatively small when compared to the price of gas traded at the STTM Brisbane hub, it is not expected that participants will incur significant costs resulting from imposition of the PCF fee.[13]

Also, this additional cost to trading participants is expected to be limited as AEMO anticipate that the PCF fee will be charged only for the first two years from 1 July 2013 until the PCF is fully funded.

Conclusion

For the reasons set out above, the Commission considers that the final rule will, or is likely to, result in marginally lower costs to trading participants, which may result in marginal price benefits to consumers of gas over the long term.

13 AEMO has estimated that the cost of the increase in the PCF amount represents 0.09 per cent of the price of gas in the first financial year and 0.05 per cent in the second financial year following the implementation of the proposed rule change. AEMO, rule change request, 10 August 2012, p4.

In making this rule the Commission acknowledges that there is a trade-off for trading participants between minimising the risk of incurring losses in the event of a scheduling error and the cost of insurance (that is, the appropriate amount of premium to be paid). Under the current rules, the size of the risk for trading participants incurring losses due to scheduling error may be greater than what is covered for by the PCF and therefore may not reflect an efficient outcome. This is because the current PCF amount does not reflect the size of the Brisbane market and trading participants are left with facing the risk of uncertain costs.

However, this issue of under insurance for scheduling error costs can be addressed by amending the PCF provisions in the NGR.

Accordingly, the final rule could offer marginal benefits in reducing risks faced by trading participants which may be in the long term interests of consumers of gas with respect to price.

The final rule therefore will, or is likely to, contribute to the NGO

The Commission has made a rule to increase the dollar amounts for the Brisbane hub PCF. In this regard, the final rule is the same as AEMO's proposed rule and makes the following amendments to rule 452(3)(a) and (b) of the NGR respectively:

- increase the maximum PCF amount for the Brisbane hub that can be recovered from participants in one year, from $50,000 to $225,000; and

- increase the maximum PCF amount for the Brisbane hub, from $100,000 to $450,000.

Transitional provisions

AEMO proposed that, if a rule were made, transitional provisions be in place specifying that the amended rule 452(3) would become effective on 1 July 2013. This would allow time for AEMO to publish the amended funding requirement and contribution rate for the PCF prior to the start of the 2013–2014 financial year.

The Commission recognises that preparations are necessary before the final rule can be successfully applied in practice. However, it is desirable to include a specified commencement date for a rule. Therefore, the commencement date of the rule has been set as 7 March 2013, with the transitional provisions making clear that the revised funding requirements will not be effective until 1 July 2013 and existing arrangements in relation to contribution rates payable are unaffected by the amendments contained in the rule change.

3.2 Civil penalties

The final rule does not amend any rules that are currently classified as civil penalty provisions or conduct provisions under the NGL or Regulations. The Commission does not propose to recommend to the SCER that any of the amendments in the rule as made be classified as civil penalty provisions.

4 Commission's assessment approach

This chapter describes the analytical framework that the Commission has applied to assess the rule change request in accordance with the requirements set out in the NGL (and explained in Chapter 2).

In assessing any rule change request against the NGL criteria, the first step is to consider the counterfactual arrangements against which the rule change is being compared. In the present case the counterfactual arrangement is the current rule in the NGR. Specifically, the PCF dollar amounts in the current rules that relate to the Brisbane hub (that is, $100,000 for the maximum PCF amount and $50,000 for the maximum PCF amount that can be recovered in one year).

In assessing this rule change request, the Commission has considered the impact of the proposed rule on the STTM Brisbane hub. The Commission has assessed the rule change request with regards to the NGO, in particular whether it is likely to be in the long term interest of consumers of natural gas.

This is discussed in more detail in the following chapter.

5 Impact on the STTM

5.1 Rule proponent's view

The proponent submitted that the proposed rule would reduce the risk that losses due to scheduling errors are not compensated for. AEMO considered that this would benefit trading participants, as the PCF will be sufficiently funded to compensate participants for the reasonable costs of a scheduling error.[14]

However, to achieve this, trading participants would be required to pay an additional charge until the new PCF maximum amount is fully funded. AEMO considered that this represents a trade-off for trading participants between the shared cost of co-insurance and the benefit of risk reduction.[15]

As to the operation of the STTM Brisbane hub, AEMO submitted that an increase in the PCF amount is not expected to have a significant effect as it impacts all trading participants in proportion to their withdrawals through the PCF fee. Because of this, the change in the PCF is unlikely to alter market incentives and the behaviour of participants. Therefore, the proposed increase in the PCF fee will not distort the activities of any particular segment of the market.[16]

AEMO also submitted that the proposed rule will ensure consistency in the level of risk between all STTM hubs with regards to the cost of scheduling errors. AEMO argued that this will ensure that all STTM hubs will operate efficiently and without distortion.[17]

5.2 Stakeholder views

Alinta Energy (Alinta), EnergyAustralia (EA) and Stanwell Corporation (Stanwell) supported the proposed rule change.[18]

In addition, Alinta submitted that while it understands and appreciates the need for an additional charge to fund the increased PCF amount, it would caution against any fees in excess of this charge. Alinta also submitted that it does not expect the rule change to alter its market incentives or behaviour when withdrawing gas from the Brisbane hub.[19]

14 AEMO, rule change request, 10 August 2012, p7.

15 AEMO, rule change request, 10 August 2012, p7.

16 AEMO, rule change request, 10 August 2012, p3.

17 AEMO, rule change request, 10 August 2012, p6.

18 Alinta, submission, 13 February 2013, pp1-2, EnergyAustralia, submission, 13 February 2013, pp1-2 and Stanwell, submission, 15 February 2013, p2.

19 Alinta, submission, 13 February 2013, p2.

Stanwell raised a number of issues relating to the PCF for further consideration. These issues were:[20]

- While it may be appropriate that the PCF level for the Brisbane hub is determined by comparison to the Sydney hub, there does not appear to be any evidence to support this approach.
- Consideration should be given to adopting a mechanism that allows both the quantum of the fund itself and participant contributions to be reviewed annually, so that they appropriately reflect the financial implications of potential scheduling errors.
- Consideration should be given to an alternative approach in determining the level of contributions paid by participants to the PCF. Stanwell suggested a 'bond' type arrangement where trading participants contribute to the PCF based on their proportion of the total available capacity at the hub.

5.3 Commission's assessment

The Commission has considered the views of AEMO and stakeholders and has concluded that increasing the PCF amount decreases the risk that trading participants are not compensated for scheduling error loss. This may benefit trading participants by:

- Reducing the likelihood of significant and unexpected costs being incurred as a result of a scheduling error. In the event of a scheduling error trading participants will have a far greater likelihood of receiving an appropriate level of compensation under the proposed PCF amount (that is, $450,000) than under the current PCF amount (of $100,000).
- Decreasing uncertainty and financial risk. Increasing the likelihood that trading participants will be adequately compensated, decreases the likelihood that they may face unexpected and significant costs when scheduling errors occur. This in turn decreases their financial (particularly cash flow) risk.

If trading participants are adequately compensated for costs they may incur through a scheduling error, then they are better able to manage the risks of participating in the STTM. Greater certainty for trading participants may lead to lower costs for consumers of gas in the long term.

However, there is a limit placed on these benefits. As the total amount of compensation payable is capped by the balance of the PCF, any benefits to trading participants which may flow onto consumers of increasing the PCF are limited. Because of this limitation, while the benefits themselves may be tangible, their impact on trading participants and in turn on consumers is considered to be marginal when compared to other factors that may impact trading activities on the STTM.

20 Stanwell, submission, 15 February 2013, pp1-3.

As to the cost to trading participants of increasing the PCF amount, the additional fee charged to participants is relatively small when compared to the price of gas traded at the STTM Brisbane hub.[21] Therefore, trading participants will not incur significant costs resulting from the imposition of the PCF fee. In addition, it is anticipated that the PCF fee is to be charged only for two years from 1 July 2013 until the increased PCF amount is fully funded, thereby limiting any long term costs to trading participants.

In this context, the proposed increase in the PCF fee is not expected to distort the activities of any particular segment of the market because it impacts all trading participants equally in proportion to their gas withdrawals.

5.3.1 Issues raised by Stanwell

The Commission's response to the issues raised by Stanwell in its submission is set out below:

1. The proposed increase to the PCF

   While Stanwell was supportive of the proposed increase, it questioned the methodology used to arrive at the proposed amount. The Commission notes that when the Brisbane PCF funding level was discussed at the STTM Consultative Forum, industry participants did not object to the proposed increase in the PCF amount.[22] In addition, it is also noted that the contributions made by participants to the PCF are relatively small.

   Given this context, the Commission considers that the method employed by AEMO to arrive at the proposed Brisbane PCF amount is a reasonable and practical approach.

   Stanwell also commented that the state of the Queensland gas market is likely to change over the next few years. The Commission notes that if the size of any of the STTM hubs were to change significantly, the relevant PCF amounts could be amended through the rule change process.

2. A mechanism to review future changes to the PCF

   The establishment of a review process of future changes to the PCF is beyond the scope of this rule change. If a market participant were to identify the need for a review process, then a rule change proposal to that effect could be submitted to the AEMC for consideration. However, it should be noted that AEMO reviews the charges relevant to the STTM PCFs as part of its annual budgeting process.

3. Alternative method to allocate participant funding

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21 AEMO has estimated that the PCF fee charged for the first financial year following the rule change will be $0.0039/GJ. This compares to the rolling average peak price for gas traded at the Brisbane hub to March 2012 of $4.37/GJ. AEMO, rule change request, 10 August 2012, p4.

22 AEMO, rule change request, 10 August 2012, pp2-3.

Similarly, the Commission considers that any consideration of alternative methods to allocate participant funding is beyond the scope of this rule change. The current rule change relates to the quantum amount of the PCF and not to how participant contributions are allocated.

As noted above, given the context of the operation of the STTM and the value of gas traded at the hubs, the current PCF contribution arrangements do not appear to be unreasonable. However, evidence on the reasonableness of AEMO's approach may emerge once claims are made on the PCFs.

If a market participant were to identify an alternative and more appropriate method to allocate participant funding, then a rule change proposal to that effect could be submitted to the AEMC for consideration.

5.4 Conclusion

For the reasons discussed above, the Commission considers that the benefits to trading participants of increasing the PCF amount outweigh the costs. That is, the benefit of reducing the costs of scheduling error for the STTM Brisbane hub is greater than the cost of co-insurance incurred by trading participants.

By decreasing the risk faced by trading participants and increasing certainty, the rule change may decrease costs in participating in the Brisbane STTM which would benefit consumers of natural gas in the long term with respect to price. However, these benefits are likely to be small when compared to other factors that may influence trading behaviour in the STTM.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Alinta	Alinta Energy
Commission	See AEMC
EA	EnergyAustralia
MCE	Ministerial Council on Energy
MOS	market operator service
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
PCF	participant compensation fund
proponent	See AEMO
SCER	Standing Council on Energy and Resources
Stanwell	Stanwell Corporation
STTM	short term trading market

A Summary of issues raised in submissions

Stakeholder	Issue	AEMC response
Alinta Energy (Alinta)	Alinta supports the rule change. Alinta submitted that: • in the event of a scheduling error, the proposed rule change ensures that trading participants will obtain an adequate level of compensation; • the proposed rule change will bring the Brisbane PCF proportionately into line with PCF levels set in Sydney and Adelaide; • it understands and appreciates the need for additional charges to fund the increased PCF, however would caution against any fees in excess of these charges; and • it does not expect the proposed rule change would alter its market incentives or behaviour when withdrawing gas from the Brisbane hub.	Alinta's comments noted.
EnergyAustralia (EA)	EA supports the rule change.	EA's support noted.
Stanwell Corporation (Stanwell)	Stanwell supports the rule change. Stanwell raised a number of issues relating to the PCF for further consideration. These issues are: 1. *The proposed increase to the PCF* While supportive of the proposed increase, Stanwell considered that there should be an opportunity to consider alternative calculation methodologies for implementation at a future date that would enhance	Stanwell's comments noted. There has been no call on the STTM PCFs to date, and trading participants have not raised any objections to the PCF amounts. Given this, the methodology employed by AEMO is likely to be a reasonable approach.

Stakeholder	Issue	AEMC response
	the overall integrity of the market. Stanwell was also concerned that the PCF level for the Brisbane hub is determined by comparison to the Sydney hub. Stanwell submitted that while this may be appropriate, there does not appear to be any evidence to support this approach. It also noted that the Queensland gas market is likely to experience change with the development of the LNG industry.	If the size of any of the STTM hubs were to change significantly, the relevant PCF could be amended via a rule change process.
	2. *A mechanism to review future changes to the PCF* Stanwell submitted that consideration be given to adopting a mechanism that allows both the quantum of the fund itself and participant contributions to be reviewed annually, so that they appropriately reflect the financial implications of potential scheduling errors.	The charges relevant to the STTM PCFs are reviewed by AEMO as part of its annual budgeting process.
	Stanwell has suggested that the size of the PCF be referenced to total capacity at the hub. It considers that total capacity is the relevant market driver, not actual usage, given the size of the risk is as large as the ability of participants to use their capacity at any given time.	Capacity based fees may be feasible for the STTM PCF although this may not be consistent with fees charged in other markets. Any alternative methods could be submitted to the AEMC as a rule change proposal.
	3. *Alternative method to allocate participant funding* Stanwell has suggested an alternative approach in determining the level of contributions paid by participants to the PCF. This is a 'bond' type arrangement where trading participants contribute to the PCF based on their proportion of the total available capacity at the hub. Under this method, existing participants would contribute an amount that reflects their proportion of the total capacity. This would provide an opportunity to readjust should new participants enter the market. Conversely, if a participant were to cease participating in the hub, there would be an opportunity for their component to be refunded (in part) given that they are no longer trading at the hub, and therefore the risk	Alterative PCF structures could be feasible. However, this is outside the scope of the current rule change. Any alternative methods could be submitted to the AEMC as a rule change proposal.

Stakeholder	Issue	AEMC response
	has been reduced by their withdrawal of capacity. Stanwell submitted that this alternative method is likely to provide a more reflective allocation of funding and appropriate risk exposure, reducing potential for 'free riding'. This in turn enhances the overall integrity of the market.	