INFORMATION

Improving the natural gas deviation pricing framework

Final rule supports causer pays deviation pricing principles

The Australian Energy Market Commission (AEMC) has made a final rule regarding deviation pricing arrangements in the Short Term Trading Market (STTM) for natural gas. The changes aim to reduce the financial risks of market participation and improve price signals and certainty regarding the costs to trading participants of deviating from their daily gas market schedules.

Final rule determination

The final rule largely adopts changes proposed by the rule change proponent, the Australian Energy Market Operator (AEMO). The final rule amends the National Gas Rules (NGR) by:

- introducing principles and parameters to guide AEMO's development of "deviation charges" and "deviation payments" in the STTM Procedures;
- clarifying that market parameters relating to "minimum market price" and "market price cap", which apply to natural gas traded at a gas hub, do not apply to deviation prices;
- removing the "settlement surplus cap" and thereby allowing over-recovered funds to be returned to trading participants based on their share of deviations (not share of withdrawals) at a gas hub; and
- removing the "graduated deviation parameters" due to redundancy under the proposed new deviation pricing arrangements.

The final rule addresses the issues outlined below and provides AEMO the flexibility to undertake its envisaged changes to the deviation pricing framework through future STTM Procedures change and consultation processes.

The final rule will commence on 1 May 2014 to accommodate AEMO's implementation tasks, including Procedures and IT system changes.

Misalignment between the costs and causes of deviation pricing

Frequently, there is a misalignment between the costs of providing Market Operator Services (MOS) to the market – that arise from trading participants' deviations – and the price paid, or charged, to trading participants for their deviations which cause the requirement for MOS. This disparity creates a monthly financial settlement imbalance in the market that, for most months, results in large shortfalls that are funded by all trading participants through shortfall charges.

Financial risks of STTM participation

For trading participants, this large shortfall means that the cost of deviating may not be fully known until the monthly settlement process is undertaken. This increases the risks associated with trading participants deviating from their daily gas market schedules, which may be difficult to manage.

Benefits to the market

The amendments aim to efficiently allocate the risks associated with trading participants deviating from their daily gas schedules, and balance these risks against the financial risks of participating in the STTM.

The causer pays principle is strengthened by removing any impediment to deviation prices being negative. This change will allow AEMO to more directly recover MOS costs from deviating trading participants rather than recovering them from all trading participants.

These amendments will enable trading participants to make more informed choices as to impacts of deviating from gas market schedules.

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