INFORMATION

Improving deviation pricing in the Gas Short Term Trading Market

Draft rule seeks to facilitate deviation pricing improvements

The Australian Energy Market Commission (AEMC) has proposed to make a draft (more preferable) rule regarding deviation pricing in the Short Term Trading Market (STTM) for natural gas. The proposed changes aim to reduce the financial risks of market participation, improve price signals, and certainty regarding the costs of deviating from gas schedules.

Draft rule determination

The draft rule largely adopts changes proposed by the rule change proponent, the Australian Energy Market Operator (AEMO), and includes the following amendments to the National Gas Rules (NGR):

- introduces principles and parameters to guide AEMO's development of "deviation charges" and "deviation payments" in the STTM Procedures;
- clarifies 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;
- removes the "settlement surplus cap", 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
- removes the "graduated deviation parameters" due to redundancy under the proposed new deviation pricing arrangements.

The draft rule will facilitate AEMO's envisaged changes to the deviation pricing framework through future STTM Procedures change and consultation processes.

Misalignment between the costs and causes of deviation pricing

The proposed amendments seek to more directly attribute Market Operator Services (MOS) costs to MOS causers. Under the current arrangements, there is a misalignment between the costs of providing MOS to the market – that arise from trading participants' deviations – and the price paid, or charged, to trading participants for their deviations causing MOS. This disparity creates monthly financial settlement imbalances in the market, most frequently resulting in large shortfalls which are funded by trading participants through shortfall charges.

Financial risks of STTM participation

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

The financial risks may be further extenuated where high MOS cost events, as a result of deviations, have prevailed in a month preceding settlement. This may result in a trading participant having to contribute to a monthly settlement shortfall they had not generated.

Benefits to the market

The draft rule addresses the issues identified by AEMO by strengthening the "causer pays" principles that support the deviation pricing framework.

This includes removing any impediment to deviation prices - which sometimes results in a cost to the market - being negative in sign. This change will allow AEMO to more directly recover MOS costs from trading participants, incurred as a result of deviating from their daily gas market schedules, rather than accruing those costs to the monthly settlement shortfall.

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 5, 201 ELIZABETH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

INFORMATION

These proposed changes will enable trading participants to make more informed choices as to the true costs and benefits of deviating from their gas schedules.

Further, these proposed changes have the potential to reduce the financial risks of STTM trading participants which, in turn, can facilitate lower barriers to entry in the STTM.

For information contact:
AEMC Director, **Slavko Jovanoski** (02) 8296 7800
AEMC Senior Adviser, **Electra Papas** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

28 March 2013