RULE CHANGE

Australian Energy Market Commission

DRAFT RULE DETERMINATION

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

Rule Proponent

Jemena Gas Networks (NSW) Ltd

12 March 2015

For and on behalf of the Australian Energy Market Commission

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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 determined to make a draft rule that would enable 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 transitional provisions set out in the National Gas Rules, 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 through a matched allocation process.[2] These provisions expire on 30 June 2015. Alternatively, Jemena could 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 draft rule is consistent with Jemena's proposed rule, with some minor amendments to improve the clarity of the proposed rule. The draft rule effectively moves the transitional provisions from Schedule 1, to Part 20, of the National Gas Rules.

The Commission is satisfied that the draft rule will, or is likely to, contribute to the national gas objective as it would 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 reasons for the Commission's decision to make the draft 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.

- The overall quantity of unaccounted for gas is relatively small as a proportion of total network quantities.[3]

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 transitional provision 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 clause 26(1)(a) of the National Gas Rules). In effect, the gas procured by Jemena under this provision largely refers to "unaccounted for gas", which is a term used in Jemena's Access Arrangement. For the purpose of this draft rule determination, "gas for operational requirements" includes "unaccounted for gas" unless otherwise specified.

3 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.

- 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 that allowing Jemena ongoing access to the matched allocation process from 1 July 2015 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 unaccounted for gas for the NSW Gas Network.

Stakeholders are invited to make written submissions in response to this draft rule determination, and draft rule, by no later than **23 April 2015**.

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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.[4]

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,[5] from the settlement of the Sydney Short Term Trading Market (STTM). It 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".[6] In effect, the gas procured by Jemena under this provision largely refers to "unaccounted for gas", 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 draft rule determination, "gas for operational requirements" includes "unaccounted for gas" unless otherwise specified.

The matched allocation process is a transitional provision in the NGR that is set to expire on 30 June 2015. Upon expiry, Jemena would be 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 seeks to amend the NGR so that the matched allocation process is a permanent provision in the NGR with no expiry date.

1.2 Rationale for rule change request

Jemena has identified two key issues with allowing the current transitional provision in the NGR for the matched allocation process to expire on 30 June 2015.[7]

Higher costs for unaccounted for gas (UAG)

If the transitional provision in the NGR is allowed to expire on 30 June 2015, Jemena considers that it will have to procure gas for its operational requirements either directly

4 See AEMC website for Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014.

5 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.

6 See clause 26(1)(a) of the National Gas Rules

7 See AEMC website for Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, page 11.

from the STTM or from a STTM user after withdrawal from the hub. Jemena submits 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 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 reason 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 cannot manage UAG to respond to price signals or incentives under the STTM deviation pricing framework.

Also, Jemena considers 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 considers 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 is that the current transitional provisions and associated definitions, as set out in clauses 13, 26 and 27 of Schedule 1 of the NGR, be moved into Part 20 of the NGR. This would allow Jemena to continue to use the matched allocation process beyond 30 June 2015. Jemena sets out the specific clauses to be moved into Part 20 of the NGR as part of its proposed rule.[9]

Jemena's proposed rule also includes removal of the provisions that allow BlueScope Steel to utilise the matched allocation process in certain circumstances. These provisions are set to expire on 31 August 2015. The NGR[10] requires that any proposal to extend BlueScope Steel's transitional provision beyond the expiry date would require such parties to a registered matched allocation agreement[11] to apply to the Australian Energy Market Operator (AEMO) before 31 August 2014 to extend the period of registration of that agreement.[12]

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

9 See AEMC website for Jemena, *Rule change proposal - Matched allocation process*, 15 September 2014, page 13.

10 See clause 26(10), Schedule 1 of the National Gas Rules.

11 See section 1.4.1 for further information on matched allocation agreements.

12 Clause 26(10) of the NGR requires that any extension to BlueScope Steel's exemption should be considered by 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 discussion with AEMO regarding the matched allocation process for BlueScope Steel, as the minimum time period required for this consultation process would not meet the 31 August 2015 expiry date of the transitional provision, it would not be possible to extend the transitional provision for BlueScope Steel in the NGR.

1.4 Relevant background

1.4.1 Matched allocation process

Exempted parties

The NGR contain transitional provisions that exempt defined parties from procuring gas through the Sydney STTM only.[13]

Exemptions currently apply for:

- Jemena, for the purposes of procuring gas for its operational requirements for the NSW Gas Network;[14] 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 exclude them from STTM settlements under a matched allocation process. Gas that is procured under a matched allocation process is excluded from STTM settlements and is therefore not subject to STTM pricing and other charges.

Matched allocation agreements

Clause 26 of Schedule 1 of the NGR 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 must 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 (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), must 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 26 and 27, Schedule 1, Transitional provisions, NGR for further detail. Also see AEMC website for Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, which provides a detailed description of the matched allocation process.

14 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.

15 The feedback flow control mechanism 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. This mechanism prevents supply disruptions to other customers on the network and effectively mimics a direct and dedicated connection from the Eastern Gas Pipeline to BlueScope Steel. See AEMC website for Jemena, *Rule change proposal - Matched allocation process,* 15 September 2014, page 7.

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.[16] This type of gas is referred to as "unaccounted for gas" (or UAG).[17] 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[18] and volume incentive.[19] Using a forecast UAG price, forecast gas demand and the UAG benchmark,[20] the Australian Energy Regulator sets Jemena's operational expenditure 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. Any price 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.

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

17 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.

18 The Australian Energy Regulatory requires Jemena to use a competitive tender process to source a UAG supplier for its UAG requirements, or to source its UAG requirements from the STTM.

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

20 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.

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 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.

The process for allocating UAG quantities varies across jurisdictional retail gas markets, the STTM hubs and the Victorian Declared Wholesale Gas Market (DWGM).[21] For example, in the gas retail markets for South Australia and Queensland, the UAG quantity is calculated as part of retail market allocations. More detail on jurisdictional differences in the way UAG is allocated has been included in Appendix A.[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.

The Commission received four submissions in response to the consultation paper, which 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.

1.6 Consultation of draft rule determination

The Commission invites submissions on this draft rule determination, including its draft rule, by no later than 23 April 2015.

Any person or body may request that the Commission hold a hearing in relation to the draft rule determination. Any request for a hearing must be made in writing and must be received by the Commission no later than 19 March 2015.[23]

Submissions and request for a hearing should quote project number "GRC0030" and may be lodged online at www.aemc.gov.au or by mail to:

Australian Energy Market Commission

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21 See AEMC website for Jemena, *Rule change proposal - Matched allocation process*, 15 September 2014, page 7. Further, through discussions with stakeholders, the Commission understands that in transitioning to the Sydney STTM, the Gas Market Leaders Group took the approach to not disturb existing contractual gas supply arrangements to the extent possible.

22 For more detail on UAG retail market allocations see: AEMC website for Jemena, *Rule change proposal - Matched allocation process*, 15 September 2015 and AGNL *Proposal to Australian Energy Market Operator*, Issue Number IN014/14, Version # 3.0, 16 December 2014.

23 In accordance with section 310(2) of the National Gas Law. A public hearing is a formal requirement for the Commission to appear before the applicant to enable the applicant to make a presentation to the Commission.

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2 Draft rule determination

2.1 Commission's draft determination

The Commission has decided to make a draft rule that, if implemented, would make the matched allocation process a permanent provision in the NGR.

The draft rule is consistent with Jemena’s proposed rule, with some minor amendments to improve the clarity of the proposed rule. The draft rule effectively moves the transitional provisions from Schedule 1, to Part 20, of the NGR.

2.1.1 Draft rule

The draft rule, if implemented, would allow Jemena to continue to utilise either of the two available procurements methods from 1 July 2015 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.

In summary, the Commission’s draft rule provides a mechanism which enables Jemena to continue to procure gas to meet operational requirements of its NSW gas distribution 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 distribution network; and
- providing a transitional provision that deems existing registered matched allocation agreements to be registered under the new permanent arrangements.

The draft rule also removes the expiring transitional provisions relating to BlueScope Steel from the NGR.[24] There has been no request to extend the operation of these provisions of the NGR. In the absence of the draft rule, these provisions would expire on 31 August 2015, in accordance with clause 26(9)(b) of the NGR. If the draft rule is made as a final rule, these provisions for BlueScope Steel would be removed from the NGR in June 2015, when the final rule would take effect (with the publication of the final rule determination).

- Clause 26(10) of the NGR requires that any extension to BlueScope Steel's exemption should be considered by AEMO before 31 August 2014 and the date

24 See clause 26(9)(b) of the NGR.

that is one year before the expiry of any extended period previously determined under the clause.

- 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 BlueScope Steel as a result of making the draft rule.

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

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 draft rule will, or is likely to, contribute to the NGO for the following reasons:

Better managing UAG obligations

The Commission considers that the draft rule will, if made, assist Jemena to better manage its Access Arrangement and gas Retail Market Procedure obligations 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 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.[25]
- 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 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

To support its assessment of whether Jemena's rule change request, and any draft rule, is likely to promote the efficient operation and use of natural gas services, the Commission considered the following principle:

- *Better managing UAG 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.

25 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.

2.4 Other matters

Some stakeholder submissions noted developments that are currently being investigated in an AEMO industry forum with respect to jurisdictional Retail Market Procedures for South Australia and Queensland.[26] In particular, Australian Gas Networks Ltd's (AGNL) proposal to AEMO regarding the investigation of harmonised UAG treatments in the Adelaide and Brisbane STTMs with those that apply in the Victorian DWGM.

The Commission considers that the AGNL proposal to AEMO is not relevant to the Commission's assessment of the issues raised by Jemena's rule change request regarding their ability to better manage their UAG obligations in respect of the NSW Gas Network. This is because, by making the matched allocation process a permanent provision in the NGR, this will not create any potential regulatory barrier to the development of harmonised, or other, efficient market arrangements for the treatment of UAG across the three STTM hubs and the DWGM.

2.5 Strategic priority

This draft 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). If implemented, the draft rule would allow Jemena better manage its Access Arrangement and NSW gas retail market obligations in respect of UAG for the NSW Gas Network. This may lead to an efficient utilisation of the NSW gas distribution network and, in turn, is likely to promote the efficient operation and use of natural gas services.

26 See AEMC website for stakeholder submissions. See Jemena, *Consultation paper submission*, pp 5-6; Lumo Energy, *Consultation paper submission*, page 2; GDF SUEZ, *Consultation paper submission*, page 3.

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 from 1 July 2015 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 states 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 argues 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 submits that it would face the following STTM fees and charges should it be required to procure its 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 considers 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 as quantities nominated for its operational requirements on a particular day deviate from the ex-ante market schedule.
- Any other STTM- related administrative costs.

Jemena considers 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, exempt Jemena from buying and selling gas, except to the extent it is necessary for the

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27 See AEMC website for Jemena, *Rule change proposal - Matched allocation process*, 15 September 2014.

safe and reliable operation of the pipeline. Jemena argues 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.

3.1.3 Stakeholder views

The Commission received four submissions and one supplementary submission,[28] 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.

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 their rule change proposal. Jemena's position on this issue is summarised in section 3.1.2 above.

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.

GDF[31] stated that they 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

28 The AEMC received a supplementary submission from Jemena on 10 March 2015, which responded to issues raised in GDF's *Consultation paper submission*. The Commission has had insufficient time to consider in detail Jemena's supplementary submission and may consider the issues raised in more detail in the final rule determination. Jemena's *Supplementary consultation paper submission* is available on the AEMC website.

29 See AEMC website for AGL, *Consultation paper submission,* 19 January 2015.

30 See AEMC website for Lumo Energy, *Consultation paper submission,* 29 January 2015.

31 See AEMC website for GDF SUEZ, *Consultation paper submission,* 29 January 2015.

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.

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. The Commission notes that Jemena is required, under the terms of its Access Arrangement for the NSW Gas Network, to replace any gas lost whilst in its custody.[32] 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.[33]

The Commission also notes that 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 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 (either directly or indirectly) its UAG requirements 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, the key difference being that 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 their 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

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

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

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 Commission also notes that the overall quantity of UAG required by Jemena is relatively small as a proportion of total network quantities.[34] 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 from 1 July 2015 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.

34 Since 1996 UAG levels for Jemena's distribution network has varied between 1.9 and 2.7 per cent. This variation, according to Jemena, is consistent with the range of contributors to UAG. See Jemena Gas Network (NSW) Ltd, *2015-2020 Access Arrangement Information*, Appendix 7.5, Unaccounted for gas methodology and justification, page 2.

Abbreviations

AEMC or Commission	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AGNL	Australian Gas Networks Ltd
DWGM	Declared Wholesale Gas Market
Jemena	Jemena Gas Networks (NSW) Ltd
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
STTM	Short Term Trading Market

A Jurisdictional differences in the way UAG is allocated

Table A.1 Jurisdictional differences in the way UAG is allocated

Jurisdiction	How is UAG allocated?
Queensland	UAG is not defined in the gas Retail Market Procedures. UAG volumes are reflected in the total volume of gas allocated to the host retailer, and are part of the wholesale allocation arrangement. The distributor enters into a commercial arrangement with the host retailer to cover the UAG volumes on its behalf. Under the contract, the distributor sets a deemed monthly UAG volume, which is based on the previous year's actual UAG volumes. A 'wash-up' occurs at the end of the UAG year where the difference between the actual UAG volume (determined through wholesale allocation arrangements) and deemed UAG volumes are calculated and settled between the distributor and the host retailer.
South Australia	UAG is defined in the gas Retail Market Procedures. UAG volumes are allocated to the distributor's UAG supplier. The actual UAG volumes are determined by AEMO. On a gas day, the distributor provides AEMO with an estimated UAG volume that is used to calculate the net system load. However, as actual daily metering data is progressively received by AEMO, the actual UAG volume will become more accurate and will replace the estimated UAG volume initially used by AEMO. Actual UAG volumes are continuously recalculated each day over 425 days to ensure all meter readings are received. The distributor and its UAG supplier use AEMO's 425 day metering data report to wash-up the difference between deemed UAG volumes set out in contractual arrangements and the actual UAG volume calculated by AEMO.
NSW/ACT	UAG is defined in the gas Retail Market Procedures. The distributor nominates a daily UAG volume to AEMO, and notifies AEMO that this quantity of gas has been delivered to the market for that day. The distributor's nominated UAG volumes are excluded from the retail market allocations, and as a result of the matched allocation process, from STTM settlements.[35]

35 Jemena undertook analysis as part of its rule change request to determine the extent to which the matched allocation process could be applied in other STTM hubs. Jemena note that given the market reconciliation processes in other STTM hubs, the main issue is that the gas Retail Market Procedures do not allow the distributor to nominate a determinable quantity of gas to be settled outside the STTM prior to the commencement of the gas day.

B Legal requirements under the NGL

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

B.1 Draft rule determination

In accordance with section 308 of the NGL, the Commission has made this draft rule determination in relation to the rule proposed by Jemena.

B.2 Power to make the rule

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

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

- the provision of pipeline services;
- AEMO's STTM functions and the operation of a short term trading market 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.

B.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 round 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 draft rule will or is likely to, contribute to the NGO.

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

B.4 Other legal requirements

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

B.4.2 Participating jurisdictions

The draft rule amends Part 20 of the NGR which relates to the operation of STTMs and only effects the STTM at the Sydney hub.[38]

B.4.3 Civil penalty and conduct provisions

The draft 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) of the draft rule (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 draft 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.