

# GAS WHOLESALE CONSULTATIVE FORUM

Subject:	Gas Market Parameter Review 2018
Agenda item:	7
Paper #:	1
Contact:	Roger Shaw, Specialist Gas Markets, AEMO
Date:	Tuesday, 13 June 2017

## EXECUTIVE SUMMARY

Item raised by:	AEMO
Rule requirement:	NGR 492 'Review Of Market Parameters' (STTM) NGR Part 19 'Definitions' Value of Lost Load (VoLL) (DWGM) NGR 224 'Administered Pricing' (DWGM) Wholesale market administered pricing procedures (Victoria)
Link to National Objectives:	Market parameters allow participants in wholesale gas markets to manage risks and support the efficient operation of natural gas services for the long-term interests of consumers of natural gas with respect to price, reliability and security of supply of natural gas.
Previous forum discussion(s):	First discussion of market parameter review for 2017
Item impact:	AEMO is required to review market parameters in the Short Term Trading Market (STTM) every five years or when market parameters in associated markets change.  AEMO has no obligation to review market parameters in the Declared Wholesale Gas Market (DWGM).
Impacted parties:	All market participants in the STTM and DWGM.  Market participants who have gas powered generators in National Electricity Market (NEM)
Purpose:	This paper informs the GWCF of a misalignment in the mandatory parameter review timing between the STTM and NEM, and AEMO's proposal to submit a rule change request to align the STTM review timing with the Reliability Panel's review of the NEM parameters.  This paper also informs the GWCF of AEMO's proposed approach to conducting a gas market parameter review covering both the STTM and DWGM, and seeks the GWCF's involvement in workshops and consultations during the review.

	In particular, AEMO is seeking the GWCF's involvement in reviewing the attached Draft scope of works for consultancy services (the Scope) for the market parameter review.
Desired outcome:	<p>Agreement on AEMO submitting a rule change to align the timing of the STTM market parameter review with that of the NEM.</p> <p>Agreement that gas market parameters for the STTM and DWGM should be included in a review to be completed by 30 April 2018.</p> <p>Discussion on the draft Scope for the market parameter review, and agreement to provide written submission on the draft Scope by close of business on 27 June 2017.</p> <p>Agreement to participate in workshops and consultations during the gas market parameter review.</p>

## BACKGROUND

Market parameters serve the following functions:

- Establish the price envelope within which energy supply and demand is balanced in wholesale markets.
- Allow the markets to send price signals to market participants.
- Limit financial risk for market participants.

Current market parameters are:

Parameter	STTM	DWGM
Market Price Cap (STTM) / VoLL (DWGM)	\$400 per GJ	\$800 per GJ
Minimum Market Price	\$0 per GJ	\$0 per GJ <sup>1</sup>
Administered Price Cap	\$40 per GJ	\$40 per GJ
Cumulative Price Threshold (7 days STTM, 35 scheduling intervals DWGM)	110% of Market Price Cap \$440 per GJ	\$1,800 per GJ

AEMO is required by the National Gas Rules (NGR) to complete a mandatory review of Short Term Trading Market (STTM) parameters by 14 December 2017<sup>2</sup>. If the review recommends changes to any parameter, a rule change request must be initiated to implement the change.

The previous parameter review in 2012 did not recommend any changes. Although not a regulatory requirement, this review also included the Declared Wholesale Gas Market (DWGM) parameters.

Subsequent to the 2012 parameter review, AEMO approved changes to the DWGM cumulative price threshold (CPT) effective from April 2014. This change (to an associated market) required AEMO under the NGR to determine if a review of the STTM market

<sup>1</sup> Defined in terms of the requirement that a price step must be between \$0/GJ to VoLL – NGR 209((5)(a))

<sup>2</sup> 5 years after previous review which was published on 14 December 2012

parameters was warranted. After analysis and consultation, AEMO decided in 2015 that a STTM review was not needed.

While AEMO is responsible for reviewing the price envelope in the gas market (for DWGM and STTM), the Reliability Panel is responsible for reviewing the NEM market parameters every four years. The AEMC has initiated the 'Reliability Standard and Settings Review 2018'<sup>3</sup> and will present a final report by 30 April 2018. The review considers whether the standards and settings remain suitable for the market, and determines those that will apply from 1 July 2020.

## DISCUSSION

### Proposal for this review

Average gas wholesale prices have increased significantly in recent times. In the six months to March 2017 they have risen between 80 and 113% compared to the corresponding period in 2016. These increases in price are illustrated in Figure 1 below:

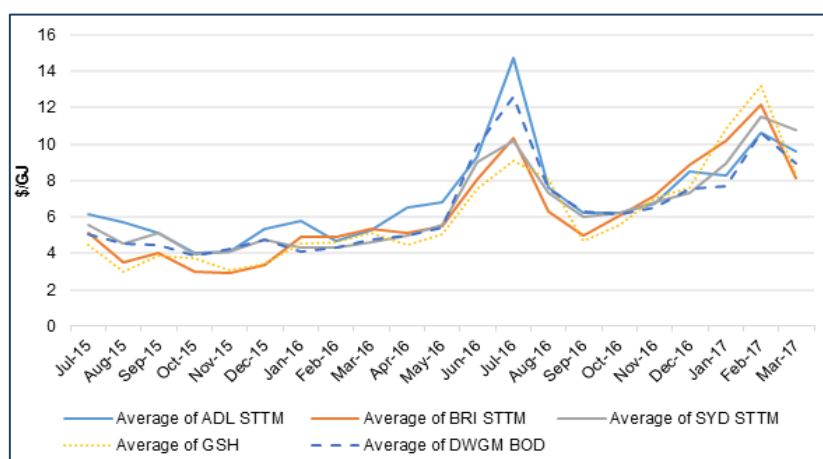


Figure 1: Monthly Average Gas Price - DWGM, STTM and GSH

These increasing gas prices mean that it is likely that some gas market parameters will need to change. In particular, the cumulative price threshold (CPT) in the STTM may be low at \$440, as an administered price cap state would be triggered by an ex ante price of circa \$360 (less than the market price cap at \$400). The CPT in the DWGM may also be low at \$1,800, as an administered pricing period may be triggered after one VoLL price. The review should consider if this is appropriate to incentivise investment in LNG capacity for peak shaving.

The administered price cap (APC) of \$40 in both the DWGM and STTM may also be insufficient to encourage gas powered generators to switch to alternate fuels during an administered pricing period.

Accordingly, AEMO proposes to review both the STTM and DWGM market parameters.

### Review Timing

The NEM Reliability Panel is conducting a review of the NEM market parameters, with final report to be published no later than 30 April 2018 (see section 0 above).

The NGR requires AEMO to decide if a review of STTM parameters is warranted after any change to NEM market parameters. The NGR requirement for completion of the STTM parameter review by 14 December 2017 pre-dates the timing of the NEM Reliability Panel

<sup>3</sup> <http://www.aemc.gov.au/Markets-Reviews-Advice/Reliability-Standard-and-Settings-Review-2018#>

final report. This means AEMO may need to conduct a further review of STTM parameters within six months.

Given the increasing interaction of gas wholesale markets and the NEM, it would be beneficial for all market parameter reviews to be conducted in the same time frame, and be informed by outcomes of other reviews.

Accordingly, we propose that the final reports of the mandatory STTM market parameter review and the non-mandatory DWGM market parameter review are aligned with the NEM market parameter review. AEMO will work with the NEM Reliability Panel to ensure information exchange between the reviews.

#### Changes to part 20 of National Gas Rules – STTM

The proposed review timing is contrary to the NGR requirement for the STTM parameter review to be completed by 14 December 2017. A rule change is needed to align the timing of the STTM parameter review with that of the NEM.

This rule change will allow AEMO to delay the final report of the STTM parameter review to align it with that of a market parameter review by the NEM Reliability Panel.

In the event that the rule change is not completed on time, AEMO will seek a letter of no action from the Australian Energy Regulator (AER) to cover the time until the rule change is complete.

There is no explicit requirement under the NGR for a review of the DWGM market parameters.

#### Review approach

In summary, the proposed approach for the gas market parameter review is:

- Conduct a STTM and DWGM market parameter review in parallel with, and informed by, the NEM market parameter review, to be finalised by the end of April 2018.
- Submit a rule change request by June 2017 to allow the mandatory STTM review to be aligned with the NEM market parameter review.
  - In the event of a delay in finalising the rule change to defer the STTM review, request a letter of no action from the AER.
- Consult with the GWCF in relation to the attached draft Scope for the market parameter review.
- Appoint a consultant to conduct the review on market parameter settings:
  - analysis and modelling
  - presentation to participant workshop(s)
  - consultation papers, draft and final reports
- Consult with the GWCF and other stakeholders, in line with the NGR's extended consultative procedure, to decide on the gas market parameters to be used in future periods.
  - Including the timing of introduction of any proposed changes
- Initiate regulatory process for any changed market parameters. Depending on the changes, this may require both rule and DWGM procedure changes<sup>4</sup>.

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<sup>4</sup> All STTM parameters are set in the NGR, but only the DWGM VoLL parameter is set in the NGR. Other DWGM parameters are set in the Procedures.

## Longer term rule changes

Following completion of the 2018 gas market parameter review, AEMO may seek coordinated NEM, DWGM and STTM rule changes to align the requirements for periodic market parameter reviews.

## RISKS / FINANCIALS

AEMO has allowed for the costs of appointing a consultant within budgeted fees for the STTM and DWGM.

Risk	Likelihood	Residual rating	Mitigation Strategies
AEMO does not complete STTM market parameter review by due date and the AEMC decides not to approve a rule change to delay the review.  (legal and compliance consequence)	Unlikely	Low	Ongoing discussions with AEMC.  Request letter of no action from AER.
AEMO does not complete STTM market parameter review by due date and the AEMC process is incomplete at this time.  (legal and compliance consequence)	Possible	Medium	Request letter of no action from AER pending rule change to align STTM and NEM review.

## TIMING AND NEXT STEPS

The high level timetable for the proposed review is:

Step	Timing
Consult GWCF on approach	June 2017
Rule change request to align STTM parameter review with NEM Reliability Panel review	June 2017
Consult GWCF on draft Scope	June 2017
Appoint consultant following EOI and tender	August – Sep 2017
Industry Workshop	November 2017
Consultation Paper	November 2017
Draft Report	February 2018
Final Report	April 2018
Regulatory change process to implement new market parameters (if required)	May 2018

ATTACHMENTS/ APPENDICES:

1. Draft Scope of works – Market parameters in the Short Term Trading Market and the Declared Wholesale Gas Market (Victoria) – 2018