



WHOLESALE MARKET COMPENSATION PROCEDURES (VICTORIA)

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FINAL DRAFT

Contents

1	INTRODUCTION.....	4
2	DEFINITIONS	4
3	SCOPE OF THESE PROCEDURES	4
4	PRINCIPLES TO BE FOLLOWED IN THE AWARD OF COMPENSATION	4
5	PRINCIPLES FOR FUNDING COMPENSATION PAYMENTS	7

Version Release History

VERSION	EFFECTIVE DATE	BY	COMMENTS
<u>NGR 1.01</u>	<u>34/125/20102015</u>	<u>J Savage/ F Cavoli N Scott</u>	<u>Rebranded and updated for NGR Updated to reflect the removal of force majeure provisions</u>
<u>NGR 1.0</u>	<u>3/12/2010</u>	<u>J Savage/ F Cavoli</u>	<u>Rebranded and updated for NGR</u>
3.0	1/10/06	Chris Pratt	Re write for Gas Market Project
2.0	22/10/04	Chris Pratt	<ul style="list-style-type: none"> - Updating of background, and principles section for determination of payments; - Compensation panel to determine funding of compensation amounts awarded by it. Transfer of detail from MSO Rules clause 3.6.6 to these guidelines and insertion of principles section to describe methodology and principles to be applied by panel in making this decision; - Amendment of methodology for funding of compensation to better align with original GMCC intent on this matter - Reflects new timeline for establishment of compensation panel; - Insertion of section for updating and interpretation of these guidelines; and Formatting changes, including italicising terms defined in the MSO Rules.
1.0	5/7/01	Chris Pratt	First issue.

1 INTRODUCTION

These are Procedures made under Rule 237 of the National Gas Rules (**NGR**). The purpose of these Procedures is to describe the principles and methodology upon which compensation amounts are to be determined by the dispute resolution panel under Rule 238.

2 DEFINITIONS

Terms defined in the National Gas Law and Part 19 of the NGR have the same meaning in these Procedures unless the context otherwise requires.

3 SCOPE OF THESE PROCEDURES

These Procedures apply to compensation claims made by a registered participant in the Declared Wholesale Gas Market (Victoria):

- under Rule 344 where AEMO has intervened due to a threat to system security; or
- under Rule 350¹ where AEMO has applied the administered price cap.

4 PRINCIPLES FOR THE AWARD OF COMPENSATION

The dispute resolution panel is to apply the following principles in determining any compensation to be awarded:

- (a) Where a registered participant has injected gas into the declared transmission system in accordance with a direction from AEMO, rule 343(1)(c)² or 343(1)(d)³ the amount of compensation is limited to the direct costs of the gas injected plus any transmission charges associated with the injection of that gas less any market payments received by the Registered participant for that gas where the market payments are the sum of imbalance payments and deviation payments or charges;
- (b) Where a registered participant has injected gas into the declared transmission system in accordance with scheduling instructions under Rule 215 for schedules where the administered price cap (**APC**) was in place, the compensation is limited to the direct costs of the gas injected plus any associated transmission charges associated with the injection of that gas less any market payments received by the registered participant for that gas where the market payments are the sum of imbalance payments and deviation payments or charges plus any ancillary payments;
- (c) Ancillary payments for gas bid at prices that exceed the market price and scheduled for injection when an APC has been applied are limited by the APC and AEMO will apply this limit in the settlements process. Where ancillary payments are limited by the APC the registered participant may be compensated for losses to the extent that the costs of the gas injected plus any associated transmission charges associated with the injection

¹ Note that rule 237 incorrectly refers to claims under rule 349.

² This provision enables AEMO to require a Registered participant to inject gas that is:

- available but not bid in on the day; or
- non-firm gas.

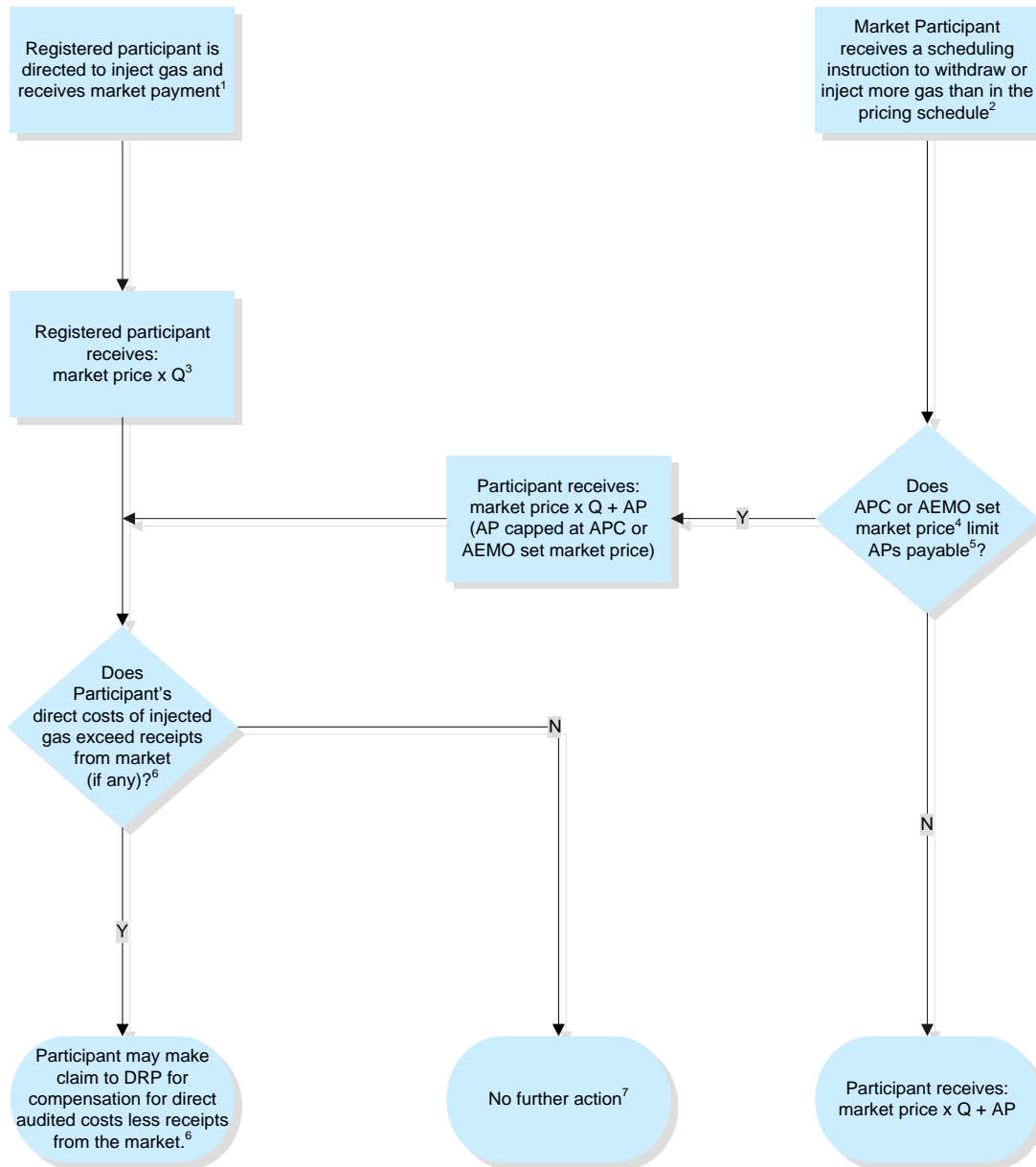
³ This provision enables AEMO to require a Registered participant to inject off-specification gas.

of that gas exceed any market payments including any ancillary payments received by the registered participant;

- (d) Compensation is not payable for losses incurred by a registered participant in respect of opportunity costs associated with other interconnected gas or electricity markets as consequence of injecting gas in accordance with a direction from AEMO under Rule 343.

For guidance, the process flow diagram for award of compensation is set out in Figure 1. on the page 6.

Figure 1. Awardable Compensation



NOTES:

1. Rule 343(1) allows AEMO broad powers to direct any Registered participant to certain things and the participant must comply but the right to apply for compensation applies only to injections of gas.
2. Rule 239(3) enables AEMO to schedule out-of-merit order gas to be scheduled in response to a local constraint.
3. Under rule 344(2), where AEMO directs a participant who is not a Market Participant to flow gas, that participant is entitled to be paid for that gas at the prevailing market price. This is inclusive of the imbalance payment (Q x P where Q = the directed quantity) plus any deviation payments at the subsequent reschedule price to correct for Participant variation from the directed amount. The Participant must then pay the declared transmission system service provider transmission charges that the provider is entitled to receive under its applicable access arrangement.
4. AEMO determines a price to be regarded as a market price at times of market suspension under r 349.
5. Rule 239(5) limits the amount of APs payable to a Participant to the amount of the APC during times where the APC applies or the market has been suspended.
6. Rule 344 allows a Participant who is directed to inject to make a claim to the DRP for the cost of the gas as directed in excess of the existing market price
7. Participant's compensation remains either market price x Q (if gas is directed) or market price x Q + AP where AP is limited to APC or AEMO set market price.

5 PRINCIPLES FOR FUNDING COMPENSATION PAYMENTS

The funding of compensation payments to a registered participant is to be allocated to Market Participants and/ or the declared transmission system service provider (DTSSP) as follows:

- (a) Where the compensation payable is associated with reduced ancillary payments due to the application of the administered price cap and where the demonstrated costs of the gas injected exceed the administered price cap, the costs of funding that compensation should be allocated to Market Participants and the DTSSP in cases where DTSSP is also liable for uplift under rule 240(6), in direct proportion to the amounts of uplift payments allocated to those parties for that gas day.
- (b) Where the compensation payable is based on demonstrated losses due to the registered participant complying with an AEMO direction to inject gas, the costs of funding that compensation should be allocated to the causers of the event causing congestion in proportion to the estimated contribution to the event by each causer (to the extent that the cause(s) can be reasonably identified and estimated). Where this is not practicable or reasonable the dispute resolution panel should allocate to Market Participants in proportion to actual daily withdrawals as determined in the settlement cycle 18 business days after the end of the calendar month.

Two examples are provided below to demonstrate the approach. The first cover a case where ancillary payments have been reduced by and administered price cap. The second covers the where gas that has not been bid into the market is directed to flow by AEMO to assist in an emergency situation, ~~which may or may not involve a system force majeure declaration by AEMO.~~

Example 1. Ancillary Payments during an Administered Pricing Period

The \$40/GJ administered price cap applied is from the 2pm schedule on a gas day. At this schedule 11,000 GJ bid at \$100/GJ is scheduled for the first time that day. This Market Participant receives \$400,000 in market payments based on final allocated injections of 10,000GJ - of the 11,000GJ scheduled bid. No other bids are impacted. The Market Participant later demonstrates to the Dispute resolution panel's satisfaction that they are \$50,000 out of pocket as the 10,000 GJ gas injected cost them on average \$45/GJ.

On this gas day, Participants A, B, C and D were allocated uplift amounts of \$50,000, \$100,000, \$350,000 and -\$80,000, respectively (noting that negative uplift is possible). The Market Participant with negative uplift over the day is deemed to have not contributed to the costs of congestion and is not required to fund the compensation. Participant A, B and C fund the compensation in proportion to the uplift allocated to them as shown in the table below:

MP	Daily Uplift Paid	Causal (+ve)	Proportion	Funding Allocation
A	\$50,000	\$50,000	10.0%	\$ 5,000
B	\$100,000	\$100,000	20.0%	\$ 10,000
C	\$350,000	\$350,000	70.0%	\$ 35,000
D	-\$80,000	\$0	0.0%	\$ -
Total	\$420,000	\$500,000	100.0%	\$ 50,000

It should be noted that due to the application of the 'AP flip flop' algorithm in the uplift process, allocation of funding on an individual schedule basis is not workable.

Example 2. Directed Gas Flow during an emergency

A registered participant is directed by AEMO to flow gas during an emergency ~~which may have been caused by a system force majeure event~~. This Registered participant demonstrates to the dispute resolution panel's satisfaction that it is \$100,000 out of pocket after market payments and is awarded compensation accordingly.

Participants A, B, C and D are active in the market on that day. The dispute resolution panel decides on a conservative basis that actions of B caused 50% of these additional costs. As shown in the table below, B must fund 50% of the compensation for contributing directly to the event i.e. \$50,000.

The balance of \$50,000 is funded by A, B, C and D pro-rated on their actual withdrawals as determined at 'month+ 18'. A, B, C and D actually withdrew on the day 150,000, 300,000, 400,000 and 100,000 GJ, respectively. Their shares of the balance of compensation are shown in the 2nd last column table. Total funding allocations are shown in the last column.

MP	Causal Allocation	Funding Allocation 1	Withdrawals GJ	Proportion	Funding Allocation 2	Total Funding Allocation
A	0%	\$ -	150,000	15.8%	\$ 7,895	\$ 7,895
B	50%	\$ 50,000	300,000	31.6%	\$ 15,789	\$ 65,789
C	0%	\$ -	400,000	42.1%	\$ 21,053	\$ 21,053
D	0%	\$ -	100,000	10.5%	\$ 5,263	\$ 5,263
Total	100%	\$ 50,000	950,000	100.0%	\$ 50,000	\$ 100,000

For guidance, the process flow diagram for compensation allocation is set out in Figure 2 on the page 9.

Figure 2. Compensation Allocation

