



## **Final Decision**

# **Significant Price Variation triggers for the Short Term Trading Market (STTM)**

December 2012

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# Contents

<b>Contents</b> .....	<b>3</b>
<b>Shortened forms and definitions</b> .....	<b>4</b>
<b>1 Introduction</b> .....	<b>5</b>
<b>2 Consultation topic 1 - factors the AER should have regard to in setting reporting triggers</b> .6	
2.1 Issues Paper .....	6
2.2 Issues raised in submissions .....	6
2.3 AER considerations and final decision .....	6
<b>3 Consultation topic 2 - significant price variations in the primary commodity market</b> .....	<b>7</b>
3.1 Issues Paper .....	7
3.2 Issues raised in submissions .....	7
3.3 AER considerations and final decision .....	7
<b>4 Consultation topic 3 - setting of daily price triggers</b> .....	<b>8</b>
4.1 Issues Paper .....	8
4.2 Issues raised in submissions .....	8
4.3 AER considerations and final decision .....	8
<b>5 Consultation topic 4 - setting of MOS service payment threshold</b> .....	<b>9</b>
5.1 Issues Paper .....	9
5.2 Issues raised in submissions .....	9
5.3 AER considerations and final decision .....	9
<b>6 Consultation topic 5 - other triggers for consideration</b> .....	<b>10</b>
6.1 Issues Paper .....	10
6.2 Issues raised in submissions .....	10
6.3 AER considerations and final decision .....	10

## Shortened forms and definitions

Shortened form	Full title
30 day rolling average price	An average price determined from a 30 day period, the last day of which is the day before the gas day
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
D-2 price	The ex ante market price for the D-2 schedule (defined in the Gas Rules).
DMITRE	Department of Manufacturing, Innovation, Trade, Resources and Energy
Ex ante price	The ex ante market price as defined in the Gas Rules
Ex post price	The ex post imbalance price as defined in the Gas Rules
Gas Law	National Gas Law
Gas Rules	National Gas Rules
Guideline	Significant Price Variations in the STTM Guideline – December 2012
Issues Paper	Significant Price Variations in the STTM - Reporting Triggers Issues Paper – November 2012
MOS	Market Operator Service
MOS service payment	Sum of payments made to MOS providers on a gas day for MOS increase offers or MOS decrease offers at the MOS price (where the italicised terms are defined in the Gas Rules)
STTM	Short Term Trading Market.
STTM hub	Defined in Division 2 of Part 20 of the Gas Rules to presently include an Adelaide hub, a Brisbane hub and a Sydney hub
Trading Participant	An STTM Shipper or STTM User as defined in the Gas Rules

# 1 Introduction

Under Rule 498(1)(b) of the National Gas Rules (**Gas Rules**), the AER is required to identify and report on any significant price variations in the Short Term Trading Market (**STTM**).

The AER is required to develop and publish guidelines as to what constitutes a significant price variation. The AER released its Issues Paper for consultation on 8 November 2012 and submissions closed on 30 November 2012.<sup>1</sup>

The AER received a total of five submissions. Submissions were received from Origin Energy, AGL, the Department for Manufacturing, Innovation, Trade, Resources and Energy (**DMITRE**), Stanwell and Delta Electricity. The submissions were generally supportive of the triggers detailed in the AER Issues Paper.

This Final Decision document should be read in parallel with the final guideline released at the same time. This decision document explains the reasons for the AER's decisions in relation to the guideline and how the AER has responded to submissions.

This report is structured around the 5 key consultation topics covered in the November Issues Paper, which are:

- significant price variations in the primary commodity market,
- setting of daily price thresholds, and
- setting of MOS service payment threshold.

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<sup>1</sup> [Significant Price Variations in the STTM - Reporting Triggers Issues Paper - November 2012](#)

## **2 Consultation topic 1 - factors the AER should have regard to in setting reporting triggers**

### **2.1 Issues Paper**

The AER in its Issues Paper sought comments on the factors the AER should have regard to in setting reporting triggers. The AER was interested in which price variations have the greatest impact on Trading Participant's ability to manage financial risks (i.e variations in the primary ex ante/ex post commodity market or variations in the Market Operator Service (MOS) balancing gas market.).

### **2.2 Issues raised in submissions**

DMITRE and Origin were supportive of the factors identified by the AER in the Issues Paper which includes variations between the D-2, ex ante and ex post prices and significant MOS service payments.

AGL identified the ex ante price as the single most important factor. AGL stated that whilst MOS can potentially impact the exposure of trading participants, Trading Participants are in a position to manage exposure by forecasting more accurately and submitting MOS offers to cover their likely exposures.

Stanwell was concerned that the reporting triggers proposed in the Issues Paper did not provide context to the underlying performance of the market or the drivers of significant prices in the market. Stanwell recommended that the triggers are formulated with the objective of identifying systematic behavioural concerns rather than identifying natural and infrequent price variations that reflect prevailing supply-demand conditions.

### **2.3 AER considerations and final decision**

The AER consider that reporting on significant price variations is part of the process of identifying systematic behavioural concerns in the STTM. The reports will identify the reasons for price variations, which may be a result of material changes in market conditions, behavioural issues or other reasons. The reports will be a useful reference document for the AER and (it is hoped) a broad range of stakeholders (government departments, participants, potential new entrants). The reports will assist the AER in its analysis of the market's performance and the identification of any behavioural concerns.

Further, Stanwell's concern that the AER focus on systematic market behaviour is already being addressed. The AER monitors the STTM on a daily basis and reports on systematic or unusual outcomes. For example the AER's [July 2012 report](#) noted a trend in Sydney for higher ex ante prices than forecast in the D-2 schedule.

The AER decision is to develop triggers based on variations between the D-2 and ex ante price, variations between the ex ante and ex post prices as well as significant ex post price, ex ante price and MOS service payments. The AER considers that these triggers will assist thorough monitoring of the STTM.

## **3 Consultation topic 2 - significant price variations in the primary commodity market**

### **3.1 Issues Paper**

In the Issues Paper, the AER considered that significant variations between the ex ante price and the ex post price or between the ex ante price and the D-2 price are both appropriate triggers for reporting. The paper explored a number of different variation thresholds and considered that a \$7/GJ threshold is reasonable. If this trigger had been in place over recent years, it would have equated to a total of five reports in 2010, no reports in 2011 and six reports in 2012 (for the period of 1 January – 31 August 2012). Triggers below this level significantly increase the number of reports.

The AER sought comment on what constitutes a significant variation between D-2, ex ante and ex post prices, and whether the selected price triggers would be an appropriate threshold for reporting.

### **3.2 Issues raised in submissions**

AGL suggested that a \$10/GJ price threshold might be a more appropriate trigger, as it is less likely to be exceeded under tight supply-demand conditions and may capture the more unusual confluence of events and circumstances.

Delta Electricity supported the \$7/GJ threshold and considered that they will trigger the 'right' number of reports.

DMITRE highlighted that the triggers detailed in the Issues Paper appear to be appropriate for variations between the ex ante and ex post price. However suggested a \$10/GJ or \$12/GJ upward price variation between the D-2 and the ex post may be more appropriate as it is likely that the variation is a result of the market responding to price signals.

### **3.3 AER considerations and final decision**

The AER considers a price threshold \$10/GJ is too high as it would have triggered four reports in 2010, no reports in 2011 and only one report in 2012. The AER decision is to apply the \$7/GJ threshold for variations in both the ex ante and D-2 and ex ante and ex post price. This takes account that the STTM is in its early stages, in which circumstances the AER considers it is preferable to over report rather than under report. The AER notes that it will review the thresholds if they lead to numerous reports, in particular if there are many reports that are similar in nature and are driven by market outcomes that appear to generally reflect the efficient operation of the market.

## 4 Consultation topic 3 - setting of daily price triggers

### 4.1 Issues Paper

The AER considered that significant daily prices should also be reported on. In the Issues Paper the AER proposed that a price threshold of \$20/GJ should be used as a price trigger (around two times the projected long term average gas price for 2020).<sup>2</sup> This would have resulted in three reports in 2010 and no reports for 2011 and 2012 (1 January - 31 August 2012).

The AER sought comment on whether a trigger for ex ante, ex post based price reporting should be based on:

- a daily price
- a price compared to a rolling average reference price, or
- a combination of both.

The AER also sought comments on the appropriateness of the \$20/GJ trigger threshold.

### 4.2 Issues raised in submissions

Both Stanwell and Delta Electricity considered that a single daily price approach fails to take into account the broader movements in gas prices during the period and that some form of rolling average approach should be applied. In particular, Delta Electricity suggested for the trigger to be set at twice the 30 days rolling average price.

DMITRE pointed out that the \$20/GJ threshold is derived from the upper limit of projected gas prices and suggested \$18/GJ may be a more appropriate threshold.

AGL supported the daily price trigger and the \$20/GJ threshold.

### 4.3 AER considerations and final decision

The AER agrees with the view that a single daily price may not capture seasonal price movements. As such, the AER's decision is to set a trigger based on a combination of a 30 days rolling average reference price and a daily price. A rolling average price is used to take into account seasonal price trends and a daily price will ensure that material impacts are considered.

AER analysis shows that a price trigger of 3 times the 30 days rolling average price would have triggered a more reasonable number of reports over the last three years (six reports) compared to a 2 times the 30 days rolling average price threshold (triggering 13 reports).<sup>3</sup>

The AER notes for the off peak season, the 30 days rolling average price can be as low as \$0.50/GJ. Hence, an additional daily price threshold will ensure only prices of material impact are reviewed.

The AER considers that the Victorian gas market daily price threshold of \$15/GJ would be good starting point for the STTM. The AER will monitor the performance of the thresholds over time and review the trigger levels if necessary. The combined threshold of greater than 3 times the 30 days rolling average price and \$15/GJ will apply for both the ex ante price and the ex post price.

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<sup>2</sup> Department of Energy and Water Supply, 2012 Queensland Gas Market Review, 2012

<sup>3</sup> Data collected for the Adelaide and Sydney hubs for the period 1 Sept 2010 - 31 Aug 2012, Data collected for the Brisbane hub for the period 1 Dec 2011 - 31 Aug 2012.



## **5 Consultation topic 4 - setting of MOS service payment threshold**

### **5.1 Issues Paper**

The AER in its Issues Paper proposed a MOS service payment threshold of greater than \$250 000. This triggers a reasonable number of events historically, six counts over three years. The AER sought comments on this threshold.

### **5.2 Issues raised in submissions**

All submissions supported the AER MOS service payment trigger threshold of greater than \$250 000. AGL recommended that a periodic resetting of the MOS service payment threshold should be made to reflect CPI movements or other factors that might impinge on the price of gas.

### **5.3 AER considerations and final decision**

The AER decision is to apply a MOS service payment threshold of greater than \$250 000. The AER has decided not to adjust the threshold over time to reflect the CPI movements for administrative simplicity, however, the AER will review the thresholds more generally at regular intervals.

## **6 Consultation topic 5 - other triggers for consideration**

### **6.1 Issues Paper**

The AER sought comments on whether any other triggers should be adopted.

### **6.2 Issues raised in submissions**

DMITRE considered that all contingency events should be reported, unless they become too frequent. Furthermore, DMITRE suggested the capacity payments are of interest and should be reported and not necessarily investigated.

Stanwell and AGL agree with AER's view that contingency gas events and capacity payments should not be a trigger for a significant price variation.

### **6.3 AER considerations and final decision**

The AER considers that no further triggers will be applied at this stage, but reiterates that irrespective of these pricing triggers, the AER will continue to monitor the STTM on an ongoing basis and report on all market events it considers significant. The AER notes that AEMO publishes reports on contingency gas events.