

Gas Markets Demand Forecasting Compliance Bulletin

November 2022

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1 Introduction

This compliance bulletin outlines for gas market participants¹ (**participants**) the AER's expectations regarding compliance with a number of critical obligations relating to the submission of price taker bids in the Short Term Trading Markets (**STTMs**) and uncontrollable withdrawal bids in the Victorian Declared Wholesale Gas Market (**DWGM**) (herein collectively referred to as **demand forecasts**) under the National Gas Rules (**Gas Rules**).

Participant demand forecasts are used by AEMO as a key input to a scheduling process as set out in the Appendix to determine the traded prices of gas on a daily basis in the STTMs and DWGM.

The AER considers that accurate demand forecasting assists price discovery and pricing outcomes allowing the gas market to operate more efficiently.

Participants should ensure they have robust systems and processes in place to support compliance with the accurate and timely submission of demand forecasts at all times. Section 4 of this compliance bulletin sets out examples of what we consider to be good or expected practice which we encourage participants to adopt. Participants should review their practices in light of this information and update them as appropriate.

This bulletin is not, however, a substitute for any provisions of the Gas Rules, or an exhaustive statement of the AER's expectations. It is the responsibility of participants to understand and comply with all of their demand forecasting obligations under the Gas Rules, some of which can attract substantial civil penalties if contravened, and to make decisions about how best to operate, guided by private legal and commercial advice, where appropriate.

Participants sometimes contact the AER seeking clarification of Gas Rules obligations. Relevant contact information is available under section 5 of this compliance bulletin. We encourage such communication, which along with our ongoing monitoring and compliance work, will assist us to determine whether further AER guidance may be appropriate or to inform our policy position. However, the AER cannot provide legal advice and such communication is not a substitute for independent legal advice.

This compliance bulletin does not set out specific performance parameters or particular technical requirements for participants to comply with when submitting demand forecasts to AEMO. We encourage participants to communicate with AEMO to clarify how they may best meet their demand forecasting submission requirements from an operational point of view.

¹ The demand forecasting obligations variously refer to "STTM Shipper", "STTM User", "Trading Participant and "Market Participant". We use the generic term "participants" except where describing the specific content of the Gas Rules obligations, or for the sake of clarity.

2 Performance

As part of our gas market surveillance, the AER has observed a large number of instances of a failure to submit demand forecasts where participants have withdrawn gas on the relevant gas days. Many of these failures included failing to submit demand forecasts for the schedules used to price gas markets, with some impact on pricing and settlement outcomes.

The AER had concerns that Shell Energy Retail (**Shell**) was not submitting demand forecasts on various days in March, May and June and that they did not have appropriate systems in place to detect the non-submission of demand forecasts. These non-submissions were detected by the AER whilst Shell was in the process of self-reporting. To perform demand forecasting Shell had a level of automation for the Victorian Gas Market but had not yet moved to automate data systems in Sydney and Adelaide. Shell has acknowledged the AER's concerns and has undertaken to set up more appropriate IT systems, including moving to the full automation of demand forecast submissions. Shell has also moved to three levels of compliance checks (daily, weekly and monthly) across different areas of its business, thereby limiting the chance of human error or machine error by establishing appropriate check points to confirm data submissions. Shell is also continuing to work with the AER over the next 24 months to report on its demand forecasting compliance, as part of its continuous improvement culture.

The AER has also detected participants with small market demand who have failed to submit demand forecasts. The AER has confirmed with AEMO that forecasts are entered in Gigajoules (GJs) and accordingly the AER has informed these participants that we expect any demand volumes to be submitted.² Existing participants who decide to enter a new market should note this point also.

The AER has also observed industrial participants who have failed to revise earlier demand forecasts in a timely manner. The AER understands that while demand forecasts can be submitted in advance of the D-3, D-2 and D-1 schedules, the AER expects that participants ensure that their earlier submitted demand forecasts are still the best estimate of gas they intend to withdraw at each of the relevant cut-off times.³

The AER has also observed participants who have not submitted demand forecasts across all schedules as required due to an incorrect belief that the submission of all demand forecasts is not mandatory, or in some cases that only D-1 submissions are mandatory. Participants must submit a demand forecast by the applicable cut-off times⁴ where they expect to withdraw gas on the relevant gas day by each of the applicable times for each

² AEMO's systems only accept bids in whole GJs. We have observed circumstances where it might be that a participant expects its demand to be under 0.5 GJ, and where this occurs entering a bid of 0GJ may be more accurate than a bid of 1GJ. However, where a participant expects to withdraw any quantity of gas that is less than 1GJ but equal to or greater than 0.5GJ, we expect that a demand forecast of 1GJ is submitted to AEMO. Similarly, participants should apply the same rounding when submitting demand forecasts above 1GJ, for example if expected demand is 110.4GJ, a demand forecast of 110GJ should be submitted, and if expect demand is 3.5GJ, a demand forecast of 4GJ should be submitted.

³ For the STTMs the relevant times are listed in rule 410(2) NGR and for the DWGM the relevant times are listed in rule 211 NGR.

⁴ For the STTMs the relevant times are listed in rule 410(2) NGR and for the DWGM the relevant times are listed in rule 211 NGR.

schedule (D-3, D-2 and D-1). As noted under Section 3 – Relevant Gas Rules, there can be significant civil penalties attached to these obligations.

The AER is concerned about the number of demand forecasts which are not being submitted and continuing instances of submitted data not meeting the relevant requirements of the Gas Rules. These failures can have a serious impact on the efficiency of the gas markets and in some cases have had adverse financial outcomes on trading participants.

Efficient market outcomes are reliant on compliance by all participants with information and data submission requirements. Confidence in the gas markets will be undermined if data is not submitted, is late or is inaccurate. In the worst case, participants may choose to exit the market if it is producing inefficient and ad-hoc outcomes.

Participants are therefore on notice that if the AER suspects that a participant has failed to submit demand forecasts consistent with the Gas Rules, the AER will consider appropriate enforcement outcomes, together with our other enforcement and compliance tools, such as issuing infringement notices with associated penalties and/or seeking court based orders and penalties.

The AER is currently continuing investigations into potential demand forecasting non-compliance, including systematic failures to submit demand forecasts in time for provisional pricing schedules.

This compliance bulletin does not prevent the AER from reviewing possible past breaches of demand forecasting requirements nor taking action in relation to those matters.

The AER considers that our enforcement approaches act as a deterrent to future non-compliance. That is, they can create an incentive for participants to ensure their compliance processes are robust enough to prevent non-compliance, as well as detect and self-report any non-compliance as soon as possible.

3 Relevant Gas Rules

This section summarises some of the key obligations relating to demand forecasting. Participants should familiarise themselves with the obligations as described in the Gas Rules (and as amended, from time to time).

STTM – Part 20 of the Gas Rules		
Gas Rule	Summary of obligation	Associated penalty
406(3)	Requirement for participants who intend to withdraw gas to submit a price taker bid in accordance with rules 409 and 410.	N/A
409	Various other rules relating to price taker bids.	N/A
410	Requirement for participants who expect to withdraw gas to submit to AEMO in good faith price taker bids that reflect their best estimate. Also covers the applicable cut-off times for the submission or revision of earlier price taker bid submissions.	Tier 1 civil penalty provision ⁵ and conduct provision
413	Defines good faith price taker bids for the purpose of rule 410.	N/A
369	Participants must prepare and submit information or data to AEMO and maintain equipment from which that information or data is derived in accordance with good gas industry practice.	Tier 2 civil penalty provision ⁶ and conduct provision
DWGM – Part 19 of the Gas Rules		
Gas Rule	Summary of obligation	Associated penalty
207(2)	Requirement for participants who intend to withdraw gas to submit demand forecasts in accordance with rules 208, 209 and 211.	N/A
208	Requirement for participants to submit a demand forecast for the amount of uncontrollable quantities of	N/A

⁵ Tier 1 provisions carry maximum penalties for corporations of \$10 million, or if greater, three times the benefit obtained from the breach if this can be determined, or if not, 10% of annual turnover. Infringement notice penalties are \$67,800 for alleged Tier 1 and 2 breaches.

⁶ Tier 2 maximum penalties are up to \$1,435,000 (plus \$71,800 per day for continuing breaches). Infringement notice penalties are \$67,800 for alleged Tier 1 and 2 breaches.

	gas they expect to withdraw in each hour of the gas day and in accordance with timings in rule 211.	
209	Various other rules, some relating to withdrawal bids.	N/A
211	Applicable cut-off times for submission or re-submission of demand forecasts by participants.	Conduct provision

4 Compliance approach – AER expectations

4.1 Submission of all demand forecasts

At a high level, the AER expects participants to take the following approach to achieving compliance with Gas Rules obligations in respect of the submission of demand forecasts:

- Where at all possible, implement the automation of the submission of demand forecasts to reduce the risk of human error and/or manual process failure.
- Where demand forecast submissions are a manual process, ensuring there is accountability through clarity around the person/s responsible for submitting demand forecasts.
- A compliance control check to ensure that the relevant person/s has made all submissions required, for example, by nominating an additional person to be responsible for confirming submission/s (where the process is manual) and/or a data systems alert in place to flag when a submission has not been made.
- Regular compliance reviews conducted at least every 3 months to confirm the submission of all demand forecasts, and ensure any automated processes or control alerts are working effectively.
- Ensure the person/s responsible for submitting demand forecasts has received appropriate training in respect of compliance requirements. We strongly recommend all new person/s participate in such training and that refresher training is conducted at least every 12 months.
- Where demand forecast submission/s are made in advance of the applicable cut-off times, ensuring that where material circumstances or conditions have changed since the initial submission/s, that revised demand forecast/s are submitted. Ensuring there is both a person/s responsible and a process in place to confirm the accuracy of earlier submitted demand forecasts is a way that participants can ensure they are revising demand forecasts where required.

4.2 Accuracy of demand forecasts

At a high level, the AER expects participants to take the following approach to achieving compliance with Gas Rules obligations in respect of the accuracy of demand forecast submissions:

- Ensure there is accountability through clarity of the person/s responsible for reviewing and updating earlier demand forecast submissions for accuracy. Such reviews should factor in any changes in circumstances since the initial submission which has or is expected to impact upon gas withdrawal/s.
- Regular compliance reviews conducted at least every 3 months to confirm the accuracy of all demand forecast submissions, ensure any automated processes or control alerts

are working effectively and inform any opportunities for the improvement of the accuracy of future demand forecasts.

- Ensure the person/s responsible for reviewing demand forecast submissions for accuracy has received appropriate training in respect of compliance requirements. We strongly recommend all new person/s participate in such training and that refresher training is conducted at least every 12 months.
- Ensure there are processes in place for the timely detection and correction of systematic biases in forecasts that may arise due to inaccurate assumptions and changes in the participants' operations or portfolio.

4.3 Self-reporting of non-compliance

If demand forecasts are submitted late, are incorrect or are not submitted at all, participants should immediately approach the AER to explain why the failure occurred and justify why further enforcement steps should not be taken. The AER has published a Guidance note on the submission of self-reports, as well as a self-reporting template.⁷ The AER will consider each matter on its merits, including all relevant factors surrounding the non-compliance.

⁷ More information and links to both the Guidance note and self-reporting template are available here: <https://www.aer.gov.au/wholesale-markets/compliance-reporting/guidance-note-submitting-wholesale-energy-self-reports-to-the-aer>

5 Other information

5.1 Frequently Asked Questions (FAQs)

1. Do I need to submit a provisional withdrawal bid if I am a smaller participant and my expected demand is less than 50GJ?

Yes. Demand forecasts must be submitted by the applicable cut-off times⁸ for each schedule (D-3, D-2 and D-1) leading up to each gas day where you expect to withdraw any quantity of gas that is equal to or greater than 1GJ, or where the quantity is less than 1GJ but when rounded up is equal to 1GJ (anything equal to or greater than 0.5GJ)

2. Do I need to submit a demand forecast for all schedules?

You must submit a demand forecast by the applicable cut-off times⁹ where you expect to withdraw gas on the relevant gas day by each of the applicable times for each schedule (D-3, D-2 and D-1). However, there may be circumstances where participants require the withdrawal of gas after one or more of the applicable cut-off times has passed. In this circumstance, participants should ensure they submit a demand forecast for the next schedule before the applicable cut-off time.

3. Do I need to submit both ex ante bids and price taker bids?

Not necessarily. Participants may wish to submit both ex ante bids (where they only want to withdraw gas at certain price/s) and price taker bids (where they want to withdraw a certain quantity of gas at any price). However, there is no requirement to submit both simultaneously. Participants may choose to submit both, or one or the other. The important thing is that participants are submitting one or the other, or both where appropriate, where they expect they will withdraw gas on a particular gas day.

4. Can I submit demand forecasts in advance of the D-3, D-2 and D-1 schedule cut-off times?

Yes. However, where demand forecasts are submitted in advance, the AER expects that participants ensure that their earlier submitted demand forecasts are still the best estimate of gas they intend to withdraw by each of the relevant cut-off times.¹⁰ Where circumstances have changed, participants are required to update their demand forecasts accordingly before the relevant cut-off times for each of the D-3, D-2 and D-1 schedules. Participants can revise earlier demand forecasts multiple times if required.

⁸ For the STTMs the relevant times are listed in rule 410(2) NGR and for the DWGM the relevant times are listed in rule 211 NGR.

⁹ For the STTMs the relevant times are listed in rule 410(2) NGR and for the DWGM the relevant times are listed in rule 211 NGR.

¹⁰ For the STTMs the relevant times are listed in rule 410(2) NGR and for the DWGM the relevant times are listed in rule 211 NGR.

5.2 Contact information

If you have any questions or comments about anything contained in this Compliance Bulletin or require further information on demand forecasting requirements, please send an email to: AERGasMarkets@aer.gov.au.

We encourage such communication, which along with our ongoing monitoring and compliance work, will assist us to determine whether further AER guidance may be appropriate or to inform our policy position. However, the AER cannot provide legal advice and such communication is not a substitute for independent legal advice.

6 Appendix

6.1 Short Term Trading Markets (STTMs)

Part 20 of the Gas Rules establishes the STTM, a market for the supply of natural gas, including related services, operated and administered by AEMO.¹¹ There are presently three geographically separate markets centred around gas hubs in Adelaide, Brisbane and Sydney.

At the STTM hubs, gas is scheduled and traded at an ex ante price on the D-1 on the basis of ex ante offers, ex ante bids, price taker bids and facility capacity information provided to AEMO on each of the three days leading up to the gas day (D-3, D-2 and D-1). Ex ante bids are bids for the withdrawal of gas only at a specified price/s whereas price taker bids are bids for the withdrawal of gas at whatever the applicable ex ante market price is on a gas day.¹² After each gas day, an ex post price which accounts for actual gas deliveries is calculated by AEMO to apply to deviations from the schedule.¹³

6.2 Victorian Declared Wholesale Gas Market (DWGM)

Part 19 of the Gas Rules establishes the DWGM,¹⁴ a market for the supply of natural gas, including related services, operated and administered by AEMO.

In the DWGM, AEMO prepares and issues 9 schedules: there is 5 standard schedules for the each gas day (D) at 4 hour intervals,¹⁵ 3 gas schedules for the following gas day (D+1)¹⁶ and one schedule for the gas day after the next day (D+2).¹⁷ These schedules are prepared by AEMO on the basis of controllable and uncontrollable withdrawal bids and controllable injection bids provided to AEMO. Controllable withdrawal bids are quantities of gas which are price-dependent whereas uncontrollable withdrawal bids are quantities of gas that are being withdrawn regardless of the price. After each gas day, AEMO calculates imbalance payments, deviation payments, ancillary payments and uplift charges based on any differences between demand forecasts and final scheduled quantities.

¹¹ As defined in rule 364 of the Gas Rules.

¹² As defined in rule 364 of the Gas Rules.

¹³ There are also other related services and associated payments and prices including market operator services and contingency gas used for the balancing of gas and system security.

¹⁴ Also known as or referred to as the declared transmission system (DTS).

¹⁵ At 6 AM, 10 AM, 2 PM, 6 PM and 10 PM.

¹⁶ At 8 AM, 4 PM and 12AM (midnight).

¹⁷ At 12PM (midday).