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STTM Deviations and the Settlement Surplus and Shortfall

GDF Suez Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Operator's (AEMO) proposed procedure change. The proposal amends deviation pricing and settlement shortfall allocation methodologies in the Short Term Trading Markets (STTM) with the intention of aligning existing AEMO procedures with the *STTM Settlement surplus and shortfall* rule change determined by the Australian Energy Market Commission (AEMC) on the 3rd of April 2014. Key changes resulting from the AEMC rule change are:

- A requirement that deviation charges "reflect the costs of providing MOS"
- A requirement that the proportion of any settlement shortfall or settlement surplus arising from "MOS related services or circumstances that are beyond the reasonable control of the Trading Participants" be allocated "to all Trading Participants"

The complexity of the proposed procedure change makes it difficult to assess whether the amendments being implemented are in keeping with the new requirements outlined in the AEMC rule change. Despite this GDFSAE believes the proposal may not be entirely compliant with the new requirements, particularly in the case of allocating the costs incurred from counteracting MOS.

The Final Rule Determination published by the AEMC notes that counteracting MOS arises "as a result of each pipeline's opposing balancing requirements, such that the MOS that is acquired is in excess of the hub's balancing requirements". It also states that "counteracting MOS appears to be caused by factors related to the physical actions of the pipeline, rather than particular actions taken by individual Trading Participants". These statements suggest that MOS quantities that exceed the balancing requirement of the hub can be attributed to counteracting MOS and that the cost of providing this counteracting MOS should be allocated to all Trading Participants.

As currently proposed in the procedure change the MOS increase/decrease cost is only calculated for the direction of the net MOS requirement at the hub. MOS quantities called that are not in the direction of this net requirement have not contributed to balancing the hub and, by removing these costs from the deviation pricing process, the procedure change proposal goes some of the way to socialising the costs of counteracting MOS.

The proposed methodology, however, does not account for the fact that the quantities of MOS that are triggered in the non-required direction must be balanced out by a MOS service on another pipeline. This second component to the counteracting MOS will be in the same direction as the net MOS requirement at

the hub and will therefore be factored into the deviation pricing process. This outcome can be demonstrated using the first worked example from the *STTM Deviation Pricing and Settlement Surplus and Shortfall Design Summary* provided by AEMO.

The quantities used in this worked example are summarised in the table below:

FACILITY	DECREASE MOS	INCREASE MOS	LONG DEVIATION (NET)	SHORT DEVIATION (NET)
MAP	0GJ	6,283GJ	N/A	N/A
SEAGAS	-4582GJ	0GJ	N/A	N/A
HUB	N/A	N/A	2,242GJ	-3,943GJ

Using these quantities the net hub deviation is 2,242 - 3,943 = -1,701GJ. As a result of this hub deviation, 1,701GJ of increase MOS is needed to balance the hub.

The principle underpinning the AEMC Rule change is that all MOS acquired in excess of the hub's balancing requirement must be counteracting MOS. Looking at the figures in the above example, we can see that:

- 1,701 GJ of increase MOS was provided on MAP which balanced the hub. The cost of this MOS should therefore be charged to the participants that caused the hub deviation.
- A further 4,582GJ (6,283 – 1,701) of increase MOS was provided on MAP. This was not needed to balance the hub and so should be charged to all Market Participants.
- 4,582GJ of decrease MOS was provided on SEAGAS. Again, this was not required to balance the hub, and so should be charged to all Market Participants.

When calculating the MOS increase cost the AEMO worked example includes the cost of providing all 6,283GJ of increase MOS, which gives an increase MOS price of $7.63/GJ. This increase MOS price is then selected as the short deviation price and is charged to all Market Participants with a short deviation quantity.

If the earlier assumptions made about counteracting MOS are correct, then this worked example is incorrectly allocating the cost of providing 4,582GJ of increase MOS to deviating parties, instead of allocating the cost to all Trading Participants as the rule change requires.

GDFSAE is supportive of elements of AEMO's proposed procedure change but is concerned by the complexity it adds to the operation of the STTM and believes that parts of the deviation pricing methodology may fail to comply with the rule change requirement that the costs associated with counteracting MOS be allocated across all Trading Participants.

Please do not hesitate to contact me on 03 9617 8410 if you wish to discuss any aspect of this submission.

Yours sincerely,

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