

STTM EVENT REPORT: GAS DAY 10 FEBRUARY 2012 AT SYDNEY HUB

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DOCUMENT REF: STTM ER 12/003

VERSION: 1

DATE: 20 March 2012

FINAL

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Glossary

Terms or Abbreviations	Explanation
AEMO	Australian Energy Market Operator
AEST	Australian Eastern Standard Time
MIS	Market Information System
MOS	Market Operator Services
NGR	National Gas Rules
STTM	Short Term Trading Market

1 Summary and purpose

On 7 February 2012 the D-3 schedule for the Short Term Trading Market (STTM) Sydney hub was published showing insufficient ex ante market offers to supply all price taker bids for gas day 10 February 2012. In accordance with the National Gas Rules (NGR), this represents a contingency gas trigger event and therefore AEMO triggered the contingency gas process. The contingency gas process commenced with an assessment conference, in which AGL advised that it had initially submitted zero quantity ex ante market offers for the D-3 schedule but had not updated the offers prior to the submission cut-off time. This had been since rectified and there was not an ongoing issue for any future gas days. Given the circumstances and AGL's advice, AEMO did not consider it necessary to call an industry conference. Further, AEMO determined that no contingency gas was required for gas day 10 February 2012, and published a notification advising the market accordingly.

This event did not affect pricing or settlement outcomes in the market. It did, however raise an issue regarding attendance, and sharing of information obtained at contingency gas conferences amongst entities who are both registered facility operators and shippers in the STTM. This issue is discussed in section 5.4 of this report and will be explored further by AEMO in consultation with STTM participants and stakeholders.

Please note that all times in this report are expressed in Australian Eastern Standard Time (AEST).

2 Background

2.1 Event reporting requirements

Rule 497 of the National Gas Rules (NGR) requires AEMO to publish a report within 30 business days after the conclusion of a reviewable event.¹ In this instance, the reviewable event is AEMO publishing a notice under rule 441 advising the market of a contingency gas trigger event².

The report must include:

- a description of the reviewable event;
- AEMO's assessment of –
 - the actions taken by Trading Participants, STTM facility operators, STTM distributors and AEMO in relation to the reviewable event;
 - the effect of the reviewable event on the operation of the STTM;
 - whether the provisions of Part 20 of the NGR (i.e. the rules relating to the STTM) were adequate to address the reviewable event; and
 - any other matter that AEMO considers relevant;

¹ Rule 497(2) of the NGR defines a reviewable event as:

- (a) an administered price cap state, administered ex post pricing state, market administered scheduling state or market administered settlement state, or a series of such states that relate to the same underlying event or circumstances; or
- (b) a contingency gas trigger event in respect of which AEMO publishes a notice under rule 441 and (if applicable) the scheduling and provision of contingency gas in relation to that contingency gas trigger event.

² Rule 440(1) of the NGR define four contingency gas trigger events:

- a) Pressure conditions are forecast to be under or over acceptable operating levels at a hub or a custody transfer point. Note that intraday pressure issues can arise even when supply and withdrawal is balanced over the day.
- b) An STTM facility is forecast to be unable to meet the normal seasonal levels of daily delivery capacity to the hub.
- c) An event, upstream of an STTM distribution system, could reasonably be expected to adversely affect the supply of natural gas to that STTM distribution system.
- d) Price taker bids in an ex ante market schedule or an outlook schedule issued by AEMO are not fully scheduled due to inadequate supply of natural gas to that hub on that gas day.

For the purposes of this event, the trigger under rule 440(1)(d) applied.

- in the case of a reviewable event which is a contingency gas trigger event, if applicable, AEMO's reasons for not scheduling any price steps that were:
 - contained in contingency gas offers and were below the high contingency gas price; or
 - contained in contingency gas bids and were above the low contingency gas price.

2.2 Review of Division 8 of the National Gas Rules

Rule 493 requires AEMO to review the operation of Division 8 of the NGR (Part 20, Division 8 of the NGR outlines the contingency gas arrangements for the STTM) after the first time contingency gas is scheduled in respect of a contingency gas trigger event. AEMO must undertake the review in accordance with the extended consultative procedure outlined in rule 9A of the NGR.

As no contingency gas was scheduled in this instance, a review of Division 8 is not required.

2.3 Contingency gas process

The NGR and STTM Procedures define a process that AEMO, as the market operator, must facilitate and administer whereby contingency gas can be scheduled. Contingency gas is a mechanism for balancing supply and withdrawals at a hub when both the ex ante market and bilateral intraday pipeline flow variations are unable (or not expected to be able) to match supply and demand within or over a gas day. Contingency gas provides pipeline operators and distributors with a means of avoiding, or at least minimising, the need to involuntarily curtail shippers supplying the hub or users at the hub.

In the STTM, facility operators are responsible for the operation of their respective facilities. As such, the contingency gas process, and AEMO's decision making in respect of the need for contingency gas to be scheduled, is dependent on input from trading participants and facility operators on supply/demand requirements and the physical operation and capabilities of the facilities on any given gas day. Therefore, the process by which contingency gas is scheduled is consultative, in which AEMO assesses the situation and leads a discussion with the industry on what response is needed and what is possible.

The contingency gas process includes the following sub-processes:

1. Trigger Event
2. Assessment Conference
3. Industry Conference
4. Contingency Gas Determination
5. Confirmation of Contingency Gas bids and offers
6. Scheduling Contingency Gas
7. Notification Requirements

Attachment A provides a summary of the contingency gas process.

3 Event description

At 14:01 on 7 February 2012 the D-3 schedule for the Sydney hub was published with alarms indicating that there were insufficient ex ante market offers to supply all price taker bids for gas day 10 February 2012. This meant that a trigger event³ for contingency gas had occurred and accordingly AEMO commenced the contingency gas process. The resultant market price in the D-3 provisional schedule was \$400/GJ.

At 14:39 AEMO notified the market that a contingency gas trigger event had occurred via a market notice and also via email and SMS.

At 14:52 AEMO notified facility operators and the distributor at the Sydney hub via Whispir messaging service (using email and SMS) that an assessment conference was to be held at 15:30.

At 15:30 the start of the assessment conference was delayed until relevant facility operators were contacted and could dial in.

At the assessment conference, AGL advised that they, as an STTM shipper, had initially submitted zero quantity ex ante market offers for the D-3 schedule but had not updated the offers prior to the submission cut-off time. This had been since rectified and there was not an ongoing issue for any future gas days. As a result of the information provided by AGL, AEMO determined no contingency gas would be required, this was agreed to by all parties at the assessment conference. It was agreed no industry conference would be required and a market notice detailing the outcome of the assessment conference would be sufficient.

At 16:21 AEMO notified the market, via a market notice and also via email and SMS, that contingency gas was not required for gas day 10 February 2012 at the Sydney hub, the trigger event was due to participant system error which has been rectified and that an industry conference was therefore not required.

4 AGL comments

The AGL Duty Trader would normally submit D-1, D-2 and D-3 bids and offers by no later than 11:30. On this day, the AGL Duty Trader was concerned by a large demand forecast deviation on D+1 incurred in the Sydney Hub. So he deliberately submitted bids for D-1, D-2 and D-3 earlier than normal at 8:21 with a view to creating and submitting the offers for these days later in the day when market operator services (MOS) and pipeline imbalances information would be known. Later in the day at 11:30 he submitted D-1 offers and resubmitted new D-1 bids based on an updated demand forecast produced by AGL's forecasting group.

The AGL Duty Trader then proceeded to create D-2 and D-3 offers but before he had submitted them he became concerned as to whether the resubmitted D-1 offers had been correctly created. The AGL Duty Trader then had two conversations about this, one with a colleague and the other with his manager. The Sydney STTM D-1 price came out at about this time and it was unusually high at \$4.58 per GJ — this also was concerning. As a result of the two conversations and the high D-1 price, the Duty Trader had managed to overlook uploading the D-3 offer.

On this particular day, there were no system issues. This was a case of trader error, albeit with extenuating circumstances.

AGL will take the following steps to avoid any future occurrence:

- AGL has stressed the need to adhere to the checklist that AGL use for STTM input purposes.
- AGL will investigate the feasibility of producing graphical displays of AGL's D-1, D-2, and D-3 bids and offers, which will serve as a feedback mechanism to review the numbers that we have submitted.

³ For the purposes of this event, the trigger event under rule 440(1)(d) applied.

5 AEMO's assessment

5.1 Actions taken by participants, facility operators, and AEMO

On 7 February 2012, AGL, as an STTM shipper⁴, initially submitted zero quantity ex ante market offers for gas day 10 February 2012 but did not update⁵ these prior to the submission cut-off time for the D-3 schedule. This led to the D-3 schedule being produced with insufficient ex ante market offers to supply all price taker bids, which resulted in a contingency gas trigger event. AGL has subsequently implemented measures to reduce the likelihood of a reoccurrence.

Since a trigger event for contingency gas had occurred as defined in rule 440 (1)(d), AEMO commenced the contingency gas process. The first activity was publishing a notice under rule 441 that a trigger event had occurred and followed by convening a contingency gas assessment conference in accordance with rule 442.

AEMO notified contingency gas contact(s) of the facility operators and distributor at the Sydney hub that a contingency gas assessment conference was to be held. Those notified were – AGL Upstream Investments, East Australian Pipeline, Jemena Eastern Gas Pipeline and Jemena Gas Networks (NSW). Under NGR 442(2) any person who receives notification of the assessment conference must attend.

The start of the assessment conference was delayed by approximately 15 minutes as not all organisations were present and had to be contacted. AEMO has identified that the organisation contact lists used by the Whispir messaging service, which are manually updated, did not align with the list of contingency gas contacts in the STTM registration database. Hence, some individuals notified may have ignored the message since it did not relate to their current role. Attempts to contact one organisation, Jemena Eastern Gas Pipeline, were unsuccessful. Since attendees present had been apprised of the cause of the contingency trigger event and its rectification, and there was no need for any action by facility operators, AEMO decided to proceed with the conference with those present.

AEMO has since updated contact lists in Whispir to align with those in the STTM registration database and has revised its business processes to ensure that the contacts lists continue to align in future.

As a result of the information provided by AGL (as an STTM shipper), AEMO determined no contingency gas was required. Accordingly, no industry conference was required as per rule 443. In accordance with rule 444, AEMO published a market notice advising that no contingency gas was required for gas day 10 February 2012.

Other than the issue identified above, with the contact lists in Whispir not being completely up to date, AEMO market communications operated as expected: .

- MIS Report INT 666 - Market Notice Report was published at 14:39 advising that a contingency gas trigger event had occurred and at 16:21 advising that contingency gas was not required.
- SMS and/or emails were also sent to participants advising them of the market notice content.
- Whispir messaging service was used to advise (via email and SMS) contingency gas contact(s) of the facility operators and the distributor that a contingency gas assessment conference was to be held.

⁴ AGL Energy Sales & Marketing Limited and AGL Wholesale Gas Limited are STTM shippers.

⁵ Rule 406(1) of the NGR requires an STTM Shipper who intends to supply a quantity of natural gas to a hub from an STTM facility on a gas day must include that quantity in an ex ante offer for that hub which:
(a) complies with rule 407; and
(b) is submitted to AEMO in accordance with rule 410.

5.2 The effect of the reviewable event on the operation of the STTM

As there was no contingency gas scheduled, there are no market pricing impacts to report for the 7 February 2012 nor subsequent days up to and including 10 February 2012.

Given that the resultant D-3 provisional market price was \$400/GJ, had AEMO been unable to publish any subsequent prices and schedules for gas day 10 February 2012, then an administered price cap would have applied. In this event, the price would have been set at \$40/GJ, which is much higher than the 30-day average D-1 price of \$3.0362/GJ. However, on 8 and 9 February 2012, AEMO was able to publish D-2 and D-1 schedules for gas day 10 February which showed sufficient supply to meet price taker bids. Accordingly, there were no market pricing impacts arising from the D-3 provisional market price being set at \$400/GJ.

5.3 Whether the provisions of Part 20 of the NGR were adequate to address the reviewable event.

In accordance with Division 8 of the NGR (contingency gas), the contingency gas process was initiated as a result of the occurrence of a trigger event and concluded with the assessment conference and subsequent notification that no contingency gas was required.

To the extent that the exercise of Division 8 was limited on this occasion, there is nothing to suggest that neither the provisions of Division 8, nor Part 20 of the NGR more generally, are not adequate.

5.4 Other matters

AEMO notes that the contingency gas contact(s) for the Rosalind Park facility operated by AGL Upstream Investments are the same as for AGL as a STTM shipper (ie. AGL Energy Sales & Marketing and AGL Wholesale Gas are registered as STTM shippers).

On this occasion, it was appropriate that AGL as an STTM shipper attend the assessment conference as it was best placed to advise whether the trigger event for D-3 was likely to continue and result in the scheduling of contingency gas. Under rule 442(1)(b) of the NGR persons other than facility operators and distributors may be invited by AEMO to an assessment conference.

However, this does raise an issue more broadly in relation to facility operators sharing common personnel for some or all areas of the corporate group's gas market operations. As a result, a facility operator's representative at a contingency gas assessment conference may also be involved in the trading activities of a related business, which may or may not be carried out by separate legal entity. The information provided by parties and subsequent discussions at the assessment conference may provide a commercial advantage to a trading participant if it is known only by that trading participant. It is likely that the information discussed at the assessment conference would be beyond what is required or necessary to be revealed at a subsequent industry conference.

In this context, AEMO is investigating the existing ring fencing and confidentiality requirements in the National Gas Law and National Gas Rules to consider options that may address this issue. AEMO will progress this matter through consultation with the STTM Consultative Forum.

5.5 AEMO's reasons for not scheduling price steps within a contingency gas bid or offer

As no contingency gas was scheduled in this instance, this section is not applicable.

Attachment A Summary of Contingency Gas Process

This section provides a high level summary of the contingency gas process. For further information, please refer to Part 20, Division 8 of the NGR and associated provisions in the STTM Procedures. AEMO's technical guide⁶ also provides an overview of the contingency gas process.

1. *Trigger Event*—the NGR prescribed four contingency gas trigger events (see rule 441).

STTM facility operators, STTM distributors, STTM shippers, or STTM users must notify AEMO of trigger events they become aware of as soon as practicable. If AEMO is notified of a trigger event, or AEMO considers an event has occurred, AEMO issues a notice advising the market.

The occurrence of a trigger event does not mean that contingency gas will be scheduled. Rather, it triggers an assessment process which may or may not lead to contingency gas being scheduled. If required, AEMO will call on the contingency gas bids and contingency gas offers submitted the day before the gas day, until the requirement is met or until the available contingency gas is exhausted.

2. *Assessment Conference*—if AEMO is notified of a trigger event, or AEMO considers an event has occurred, AEMO is required to convene an Assessment Conference with the relevant STTM distributor, STTM facility operators, and any other person whose attendance AEMO considers reasonably necessary.

At the assessment conference, information about the trigger event is exchanged, and an assessment is made of the operational requirements for the STTM distribution network and STTM facilities for the affected gas days. An assessment is also made as to whether contingency gas is likely be needed, and if so, what quantity of contingency gas might be required, and the location and timing for delivery of that contingency gas.

3. *Industry Conference*: If the assessment conference indicates that CG is required, AEMO can convene a wider industry conference to discuss the trigger event and possible responses to it. The outcomes of the CG assessment conference assessments will be available at this conference. Trading participants may discuss commercial response to the trigger event with AEMO. However, if AEMO considers contingency gas is urgently required, it may not have time to convene the industry conference before the time by which contingency gas needs to be called. In this case, AEMO may go straight to step 4.
4. *Contingency Gas Determination*: Following the conferences, AEMO must determine the requirement for contingency gas, if any, based on the information provided to it. This will include the location and timing of when contingency gas will be required.
5. *Confirmation of Contingency Gas bids and offers*: AEMO must carry out a confirmation process with trading participants who submitted contingency gas offers or bids to confirm the actual quantity of contingency gas they expect to be able to provide within the required time. The available quantity may be more or less than the submission. The trading participant can update the total quantity available, but the offer or bid price steps cannot be changed. Price steps will be marked as unavailable if the available quantity is reduced, or the last price step will be extended if the available quantity is increased.
6. *Scheduling Contingency Gas*: Subject to the information determined in step 5, AEMO then proceeds to schedule contingency gas. To rectify a supply shortfall, AEMO calls contingency gas offers in order of increasing cost. To rectify a supply surplus, AEMO calls contingency gas bids in order of decreasing price. Quantities called will not exceed the quantities confirmed in step 5. All contingency gas offers or bids called are recorded by AEMO for settlement purposes.

⁶ Technical Guide to the STTM version 3.3, AEMO, 14 December 2011.

The technical guide can be found on AEMO's website at: <http://aemo.com.au/STTM/sttmgen.html>

7. AEMO continues to monitor the situation and liaise with participants until the situation is rectified. This response does not preclude the need for involuntary curtailment. AEMO may also request participants to reduce their response; however, this will be voluntary because responses may already be committed. If a provider is able to reduce its response, then AEMO will issue scheduling instructions and reduce the quantity of contingency gas called for settlement purposes.