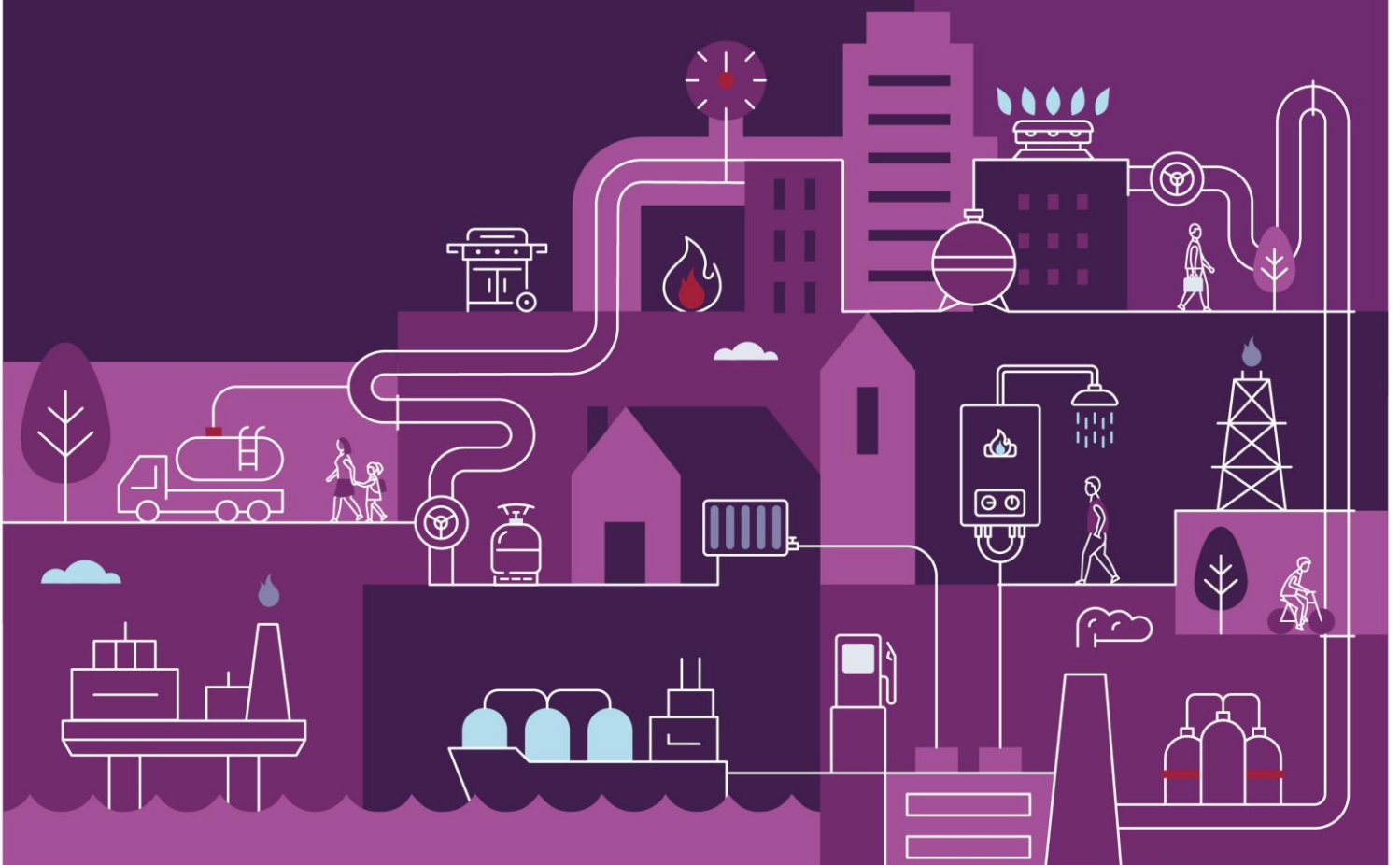


STTM Event Report

June 2022

Events following the retail market
participant suspension from the
STTM

Prepared by Gas Market Monitoring





Important notice

Purpose

AEMO has prepared this report pursuant to Section 7.6 of the STTM Procedures, and clause 497 of the National Gas Rules (NGR), unless otherwise specified. This publication has been prepared by AEMO using information available at 29 June 2022. Information made after this date may have been included in this publication where practical.

Disclaimer

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1 Description

On 23 May 2022 at 15.45 hrs AEMO issued a suspension notice to Weston Energy Pty Ltd (Weston) under rule 488 of the National Gas Rules (NGR), effective from gas day 24 May 2022. This notice was issued due to a failure to satisfy a margin call made on the same day by the time of 14.00 hrs. The suspension was for Weston's registrable capacities as a STTM User and STTM Shipper in Adelaide, Sydney and Brisbane hub. Weston was also suspended from the Victorian Declared Wholesale Market (DWGM), however this is outside the scope of this report.

Consequently, under the NGR 428(1)(d), AEMO determined that an Administered Price Cap State applied at the Brisbane hub for gas day 24 May 2022 due to a minor Retailer of Last Resort (RoLR) event. At the same time under the NGR 431(1)(a), AEMO determined that a Market Administered Settlement State applied at the Sydney hub for gas day 24 May 2022 due to a major RoLR event.

For Brisbane, the Administered Price Cap State would cease after gas day 7 June 2022. For Sydney, the Market Administered Settlement State would cease after gas day 24 May 2022 and be replaced by a Market Administered Scheduling State under NGR 430. The Market Administered Scheduling State would cease after gas day 21 June 2022.

On 24 May 2022 at 13.30 hrs AEMO held an industry conference to brief participants about the impacts of the Market Administered Scheduling State on the Sydney Hub as a result of the major RoLR event. In that conference, AEMO advised that as a consequence of this scheduling state, there would be no approved ex-ante market schedules for Sydney per NGR 430(1)(b)(i). Instead, the allocations that are submitted after the gas day would serve as the basis for the ex-ante market schedule. This meant that the ex-ante quantities would match the ex-post schedule.

While the Market Administered Scheduling State meant that there would be no "approved" ex-ante market schedule, AEMO stated it would continue to run, approve and then disapprove ex-ante market schedules to provide market participants with some guidance about potential outcomes. Market participants were also advised to nominate flows to their STTM facility operator as usual and STTM facility operators would allocate as per existing contracts.

AEMO also noted that this process presents some challenges and invited written feedback from participants to assist with managing this and similar future events.

The Market Administered Scheduling State required for a major RoLR event resulted in a Sydney STTM price that was significantly lower than the price in the other STTMs and the DWGM. This removed the financial incentive for market participants to supply the Sydney STTM hub, which triggered a Contingency Gas (CG) event on 25 May 2022. On 30 May 2022, a NSW Ministerial direction was made to AEMO to convert the event in the Sydney Hub from a major RoLR to a minor RoLR event. This had the effect of creating an Administered Price Cap State from gas day 2 June 2022 (not 1 June as the direction was received after ex-ante publication for gas day 1 June). This changed the end date for the administered period from 21 June to 7 June, in line with the minor RoLR process. All times in this report are AEST and a chronology of the events can be found in Appendix A1.

An update to this report is also forthcoming that will look at operational management of supply and demand, as well as Market Operator Service (MOS).



2 Assessment

This is the first time in the operation of the STTM that there has been either a minor and major RoLR event. While AEMO considers processes worked in line with expectations for the minor RoLR event in Brisbane, there were concerns regarding unintended market outcomes from the major RoLR event in Sydney.

2.1 Actions taken by Participants and AEMO

This was the second time in the operation of the STTM there had been a market administered ex-ante scheduling state, but the first time this had been caused by a RoLR event. It was also the first time this event occurred in more than one hub simultaneously.

Given this unprecedented event, following the suspension of Weston from the STTM, AEMO reacted swiftly to publish STTM notices and administer ex-ante market prices, following the STTM Procedures and NGR. STTM Trading Participants were given sufficient notice by AEMO of the events and to the change in market operation. The industry conference convened the following day explained the events and allowed sufficient time for attendees to ask questions. The conference minutes were subsequently issued to participants.

2.2 Adequacy of Part 20 of the NGR

In respect to this event, AEMO has assessed the application and adequacy of the NGR, with a primary focus on the following provisions:

- NGR 487 Default Notice
- NGR 488 Suspension of a Trading Participant
- NGR 428 Administered price cap state and NGR 431 Market administered settlement state

2.2.1 Default notice

AEMO followed NGR 487 which states that AEMO must specify particular details in the default notice and inform all Market Participants by publishing the notice. This was the second time such a notice has been issued in the history of the STTM (the first being Go Energy in April 2016). AEMO considers the rule adequate for this event.

2.2.2 Suspension of a Trading Participant

Once AEMO had determined that Weston met the criteria for market suspension, a suspension notice was issued under NGR 488.

This included immediately notifying the STTM participants and the AER. As a retailer, the suspension of Weston then triggered the Retailer of Last Resort (RoLR) process. Reiterating that this was only the second time AEMO had been required to issue a suspension notice since commencement of the STTM, this process was followed competently and effectively.

The rules for this process were adequate and effective.

AEMO acknowledges the Traditional Owners of country throughout Australia and recognises their continuing connection to land, waters and culture. We pay respect to Elders past, present and emerging.

2.2.3 Administered price cap state and market administered settlement state

The Market Administered Scheduling State with an administered price set below the price of incremental gas supply created significant market issues for both AEMO and market participants. These issues are outlined in section 3. AEMO believes it applied the rules effectively under difficult and challenging circumstances. The serious nature of the market impacts however, not the least a threat of market curtailment, leads AEMO to believe the Rules and Procedures were not adequate or effective in addressing this scenario. There is also no provision for AEMO to adjust these market settings.

3 Market Impacts

As previously discussed, due to their market share, Weston's STTM suspension triggered a major RoLR event in Sydney, and a minor RoLR event in Brisbane. The STTM Procedure has a prescribed formula for calculating an administered price for a major RoLR event taking into account the average of the past 30 days prices, while in Brisbane no such calculation was required. Because spot prices across all markets had been increasing rapidly throughout May, this resulted in the calculated Sydney ex-ante price being approximately \$10/GJ lower than the other STTM Hubs, as well as the DWGM price.

As prices in Sydney were artificially lower than the other markets, due to the price calculation formula, suppliers were reluctant to supply into Sydney at lower prices, arguing they were paying significantly more for supply than they were receiving in Sydney. As a result, nominations to the Sydney hub were insufficient to meet expected demand for gas day 25 May, and then triggered a CG event, which is outlined in a separate event report. The need to schedule CG was avoided after an industry teleconference was held, and updated nominations were provided.

Given the interconnected nature of the STTM hubs and the DWGM, this also led to participants reducing offers in other markets, concerned their supply would be scheduled at an uneconomical price, particularly with the imminent possibility of the Cumulative Price Threshold (CPT) being reached which would cap the price at \$40/GJ.

The offer stack for Sydney for the period 20 May to 8 June 2022 is shown below. This chart shows the effect on the Sydney STTM offer stack after participants had an opportunity to bid for gas day 25 May once it was known what effect the RoLR event would have on the Sydney price.

In addition, offer stacks in Brisbane and Sydney saw a reduction in total offers due to the RoLR events, with participants reluctant to offer additional gas while price caps were in place. This is contrasted with Adelaide which remained uncapped and saw no reduction in offers. These offer charts are shown below.

The Market Administered Scheduling State also presents operational challenges. As per NGR 430(1)(b)(i), AEMO was not permitted to approve ex-ante market schedules for Sydney. Instead, the allocations that were submitted after the gas day served as the basis for the ex-ante market schedule. This meant ex-ante quantities would match the ex-post schedule.

With no approved ex-ante market schedule, AEMO continued to run, approve and then disapprove ex-ante market schedules to provide market participants with some guidance about potential market outcomes. Market participants were instructed to nominate their flows to their STTM facility operator as usual, and operators were to allocate as per existing contractual arrangements. AEMO recognises this process presented challenges, both internally and for market participants.



Finally, the application of price caps can lead to compensation claims from participants if losses are incurred. At the time of publication of this report, no claims for compensation have been received.

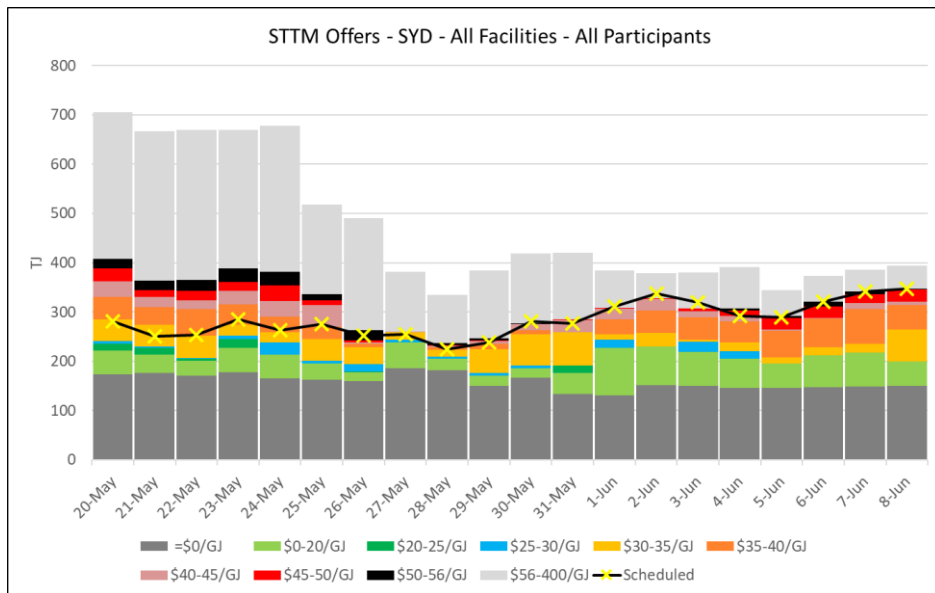


Figure 1: Sydney hub offers

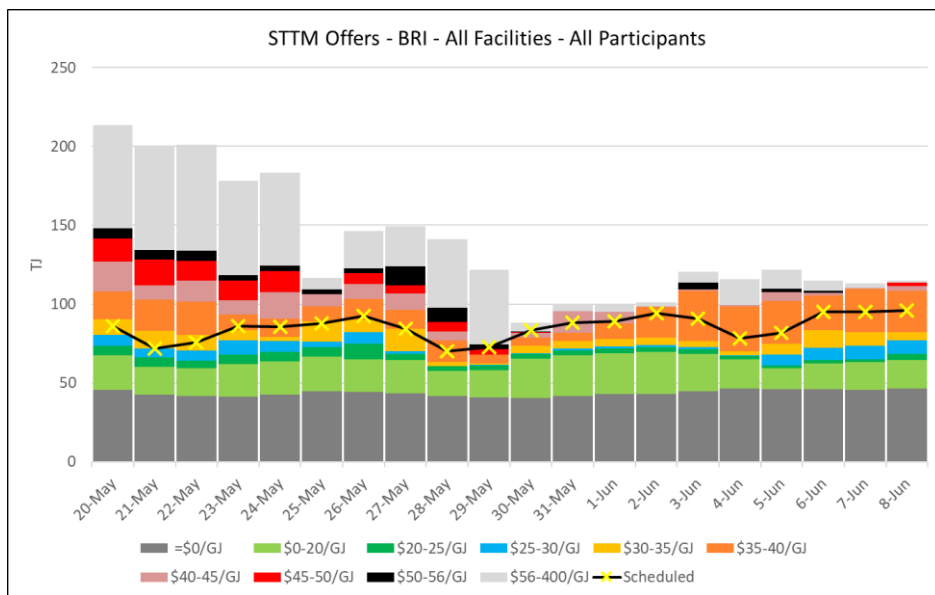


Figure 2: Brisbane hub offers

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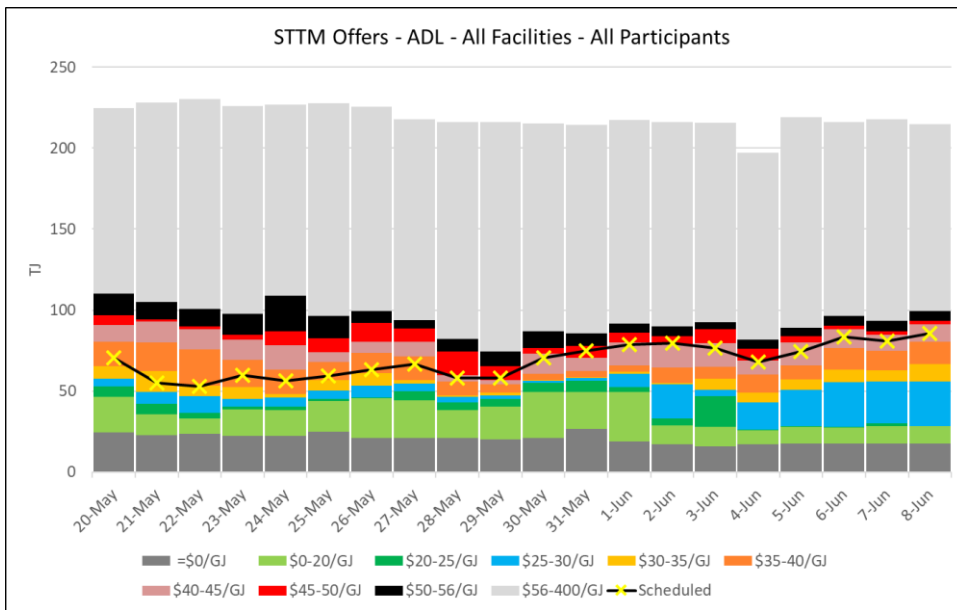


Figure 3: Adelaide hub offers

4 Conclusion

Weston’s market suspension from the STTM and subsequent RoLR events in Sydney and Brisbane were unprecedented for the STTM in its history. AEMO considers it applied the Rules and Procedures effectively in a very challenging environment.

AEMO has become increasingly concerned around the potential market impacts of the market administered scheduling state for major RoLR arrangements in the current spot price conditions across the eastern gas markets. Similar concerns have been raised verbally by some market participants. AEMO recognises the possibility that this mechanism, which is meant to protect host retailers taking on customers from a suspended participant, may incentivise behaviour that introduces significantly greater risks than the ones they are meant to address.

Much has changed in the markets since the NGR and STTM Procedures were developed prior to 2010, and AEMO questions whether the market administered scheduling state in its current form is still appropriate for today’s environment. As such AEMO supports a review of the STTM Rules and Procedures to make them more fit for purpose.

A1. Chronology

Date and Time (AEST)	Responsible Party	Details
23 May 15.45 hrs	AEMO	AEMO suspended Weston from gas day commencing 24 May 2022 from any STTM hub
23 May 17.40 hrs	AEMO	AEMO determined that an Administered Price Cap State applied at the Brisbane hub for gas day 24/5/22 due to a minor RoLR event. to cease after gas day 7/6/22
23 May 17.41 hrs	AEMO	AEMO determined that a market administered settlement state applied at the Sydney hub for gas day 24/5/22 and to cease after gas day 21/6/22
25 May 13.30 hrs	AEMO	AEMO held an industry conference to registered STTM Contingency Gas contacts for the Sydney Hub to discuss Major RoLR event
30 May 14.29 hrs	AEMO	Ministerial direction under NSW Essential Services Regulations, for AEMO to administer the STTM at the Sydney hub as if a minor (not major) RoLR event
1 June	AEMO	The current Market Administered Scheduling State was replaced with an Administered Price Cap State at the Sydney hub from gas day commencing 02/06/2022
7 June End of gas day	AEMO	Brisbane and Sydney Administered price cap state ended