STTM TRADING LIMIT METHODOLOGY

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FINAL

Contents

Version Release History

VERSION	DATE	BY	CHANGES
0.1	09.06.2010	Carl Andersen	Draft
1.0	23.07.2010	Carl Andersen	Final

1 Introduction

In accordance with Rule 483(3)(b) of the National Gas Rules (NGR), the Australian Energy Market Operator (AEMO) must determine a Trading Participant's Trading Limit based on the Trading Participant's available security. This methodology must be published by AEMO after consultation with the Trading Participants.

A Trading Participant's Trading Limit will determine what level of exposure the Trading Participant can reach compared to their provided Security before they will receive a Margin Call, under Rule 485.

It should also be noted that under Rule 484(2) when a Trading Participant reaches 80% of their Trading Limit they will receive a Warning Notice.

2 Consultation on draft methodology

During the design and implementation phase of the Short Term Trading Market (STTM), it was considered appropriate that the STTM arrangements for the credit management and billing framework should be similar to the Victorian gas market arrangements.

This framework was supported by the Business Liaison Group (BLG), the STTM Steering Committee and the Gas Market Leaders Group (GMLG) during December 2008. This framework was then picked up in the STTM Detailed Design, dated 11 May 2009, which was endorsed by the GMLG and the Ministerial Council on Energy (MCE) and formed the basis for the amendments to the NGR to establish the STTM.

On 11 June 2010, AEMO released a draft of the methodology for determining the trading limit for the STTM for stakeholder comment. The draft document was made available to trading participants via the Business Liaison Group, the STTM Industry Legal Working Group and the STTM Market Readiness Coordinator. Consultation responses were sought by 25 June 2010.

The draft document outlined AEMO's proposal to determining the Trading Limit as 85% of the security posted by the trading participant.

AEMO received no comments in response to the draft methodology document.

The proposed trading limit methodology was also communicated through the training conducted during the STTM Establishment Project Readiness Workstream.

3 Methodology for Determining Trading Limit

The methodology for the Trading Limit that AEMO is proposing is 85% of the Security provided by the Participant. In other words-

TL(TP) = Trading Limit of the Trading Participant

S(TP) = Security provided by the Trading Participant

TL(TP) = 0.85 x S(TP)

4 Reasoning for Methodology

The reasoning for choosing to use 85% of the Security as the Trading Participant's Trading Limit is as follows:

1. This methodology is consistent with the principle that the STTM prudential framework should be consistent with the Victorian Wholesale Gas Market. As noted above, during the design and implementation phase of the STTM, it was considered appropriate that the same collateral and prudential framework apply as that which applies in the Victorian Wholesale Gas Market. In making this decision, consideration was given to potential market participant risks and exposure and it was considered that there was not a good reason to adopt a different framework for STTM establishment. In this regard, AEMO intends to apply an 85% of the security as the trading participant's trading limit.
2. The proposed methodology allows for different trading limits to apply depending on the collateral provided by the trading participant.
3. The proposed methodology was applied and tested during the STTM Market Trial and it is considered appropriate to continue to apply this methodology in live market operations.
4. This methodology is consistent with the proposed limited communicated during STTM training in the lead up to the STTM Market Trial.

Note: as a result of this Trading Participants will receive a Warning Notice at 68% of their Security value, (80% of their Trading Limit) based on Rule 484(2).