

Cumulative Price Period in the Declared Wholesale Gas Market

October 2021

Investigation into the calculation of the cumulative price as
defined in the administered pricing procedures

Important notice

PURPOSE

AEMO has prepared this report pursuant to 91BN of the National Gas Law, using information available as at July 2021, unless otherwise specified.

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1. Introduction

AEMO is the operator of the Declared Wholesale Gas Market (DWGM) under Part 19 of the National Gas Rules (NGR). The detailed processes of the DWGM are specified in the Wholesale Market Procedures which include how AEMO addresses NGR 224, administered pricing.

The Wholesale Market Administered Pricing Procedures (Procedures) are made under NGR 224, and specify the Administered Price Cap (APC), the Cumulative Price Threshold (CPT) and Cumulative Price Period (CPP) are determined.

In July 2021 it was discovered that the calculation of the CPP was using 36 consecutive intervals instead of the required 35 as outlined in the Procedures.

This report identifies and investigates this incorrect value.

2. Summary of findings

The CPT is set at \$1,400/GJ under the Procedures in Section 2.2 per the 2018 Gas Market Parameter Review. If the cumulative price¹ is greater than, or equal, to the CPT an administered price period is triggered. During an administered price period, market prices must not exceed the APC of \$40/GJ. These gas market parameters, CPT and APC, are a fundamental aspect of the market's design that assist in limiting financial risk for market participants.

The CPP is specified in the Procedures as being based on the last week, i.e. 35 consecutive scheduling intervals. However, it was discovered in early July 2021 that the cumulative price calculation, in AEMO's market systems, was incorrectly using 36 consecutive scheduling intervals. This was due to the calculation using the previous 35 consecutive schedules as well as the current schedule (instead of 34 previous schedules and the current schedule). Once AEMO became aware of this calculation error, an expedited system change was implemented on 9 July 2021 to align the calculation with the Procedures.

The CPT has never been triggered, even with the additional interval in the calculation and so there has been no market impact from this error.

3. Conclusion

AEMO has found that there was an incorrect value for the number of scheduling intervals in the calculation of the CPP for an administered price period to be triggered in AEMO's system, and has found that this was not material.

¹ The cumulative price is the summation of the marginal clearing prices, where the marginal clearing price is the highest priced bid step that is scheduled for injection in the relevant operating schedule. The marginal clearing price may be higher than the market price where gas has been scheduled for injection above the market price, i.e., out-of-merit-order gas.

This incorrect value did not result in any market impact. AEMO has updated the system to correctly reflect the number of intervals required as per the Procedure. AEMO successfully implemented the change on 9 July 2021.