

25 March 2010

Mr Tom Leuner
General Manager Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Level 12
15 William Street
Melbourne VIC 3000

Postal Address:
GPO Box 2008
Melbourne VIC 3001

T 03 9609 8000
F 03 9609 8022

Dear Mr Leuner

Request for 'No Action' on a non-compliance with National Gas rules

Prior to the establishment of AEMO, the Victorian Market and System Operations Rules (MSOR) were subsumed and written into Part 19 of the National Gas Rules. These took effect from 1 July 2009. The Rule transition process was minimalist in that the general intent was to translate the existing MSOR provisions into the revised NGL/NGR framework without unnecessary changes to the application of the Rules.

The MSOR specified payments of interest in certain situations but did not specify whether simple or compound interest was to be used. From commencement of the Victorian gas market in 1999, the approach that was adopted in all gas market systems and procedures was for such payments to be made on the basis of simple interest. However, in reviewing the National Gas Rules it has come to our attention that rules 238(4), 238(6), 249(4)(a) and 253(2) specify that interest is to be "compounded daily". It is AEMO's belief that this change to the specified use of compound interest was inadvertent, was not subject to any consultation with affected Market Participants, and any consequences were unintended. It is also noted that simple interest is the approach used in the National Electricity Market and will also be used for the imminent gas Short Term Trading Market to apply in NSW and South Australia from June 2010.

AEMO raised this issue for discussion at the Gas Wholesale Consultative Forum on 22 March 2010 and there was broad agreement to maintain the use of simple interest for ongoing consistency and to avoid unnecessary costs of changes to existing market systems. AEMO intends to prepare a rule change proposal to the AEMC seeking to remove references to 'compound interest' in the Rules referred to above.

Until such time as an AEMC determination is obtained in this regard, AEMO will be non-compliant with the NGR and pay interest amounts based on simple interest calculations. AEMO requests a letter of 'no action' from the AER on this matter, pending the AEMC's final determination on the proposed Rule change. AEMO proposes to make the rule change submission to the AEMC within two months.

Thank you for your assistance in this matter. Should you have any queries concerning the above please contact me on (03) 9648 8520.

Yours sincerely



Terry Grimwade
Executive General Manager, Market Development