

# MEMORANDUM

DATE:	10 AUGUST 2010
TO:	NATURAL GAS SERVICES BULLETIN BOARD
FROM:	ELIZABETH O'BRIEN
SUBJECT:	AMENDMENT TO INTEREST RATE RULE CHANGE

## 1. Executive Summary

- AEMO submitted a proposed Rule change to the AEMC on 31 May 2010 which sought to amend the manner of calculating interest payments in the Declared Wholesale Gas Market (DWGM). AEMO intended to amend the NER to clarify that interest calculations would be determined on a 'simple interest calculated daily' basis rather than 'compounded daily'. The latter was introduced in the transition from MSOR to NGR on 1 July 2009. The rule change proposal also sought to clarify that the simple method for calculating interest would be used for the STTM thereby aligning the two markets. In both cases, the rule change aligns with AEMO market IT systems.
- Discussions with the AEMC have identified additional issues with the National Gas Rules (NGR) that may be addressed as part of this Rule change. This includes:
  - Correcting the definition of "interest rate" used in the DWGM, STTM, and Natural Gas Bulletin Board (BB).
  - Amending the BB Rules to clarify that interest is to be calculated on a simple interest basis.
- AEMO will submit an amended Rule change proposal which suggests streamlining the definitions of "interest rate" used in Parts 18, 19 and 20 as well as the issues that formed part of the original application.

## 2. Background

On 31 May 2010, AEMO submitted a Rule change proposal to the AEMC requesting an amendment to the NGR regarding the methodology used for interest rate calculations in the DWGM.

The proposed amendments for the DWGM would correct an unintended change that was made in transitioning the Market and System Operations Rules (MSOR) to the NGR on 1 July 2009 and realign the NGR with current market systems.

The proposed Rule primarily sought to amend clauses 238(4), 238(6), 249(4)(b) and 253(2) of the NGR to allow AEMO to continue calculating interest on compensation payments, adjustments to revised statements, and overdue amounts, using a simple interest methodology rather than requiring costly changes to market systems to enable these amounts to be compounded daily for the DWGM.

The Rule change proposal also sought to clarify that the method to be used in the STTM for interest rate calculations would be simple interest. Clauses 473(5)(b), 476(2), and 466(4) all

require interest to be calculated on a daily basis. The Rule change sought to clarify that this meant simple interest calculated on a daily basis.

### 3. Issue with interest rate definition

Discussion with the AEMC has uncovered several other inaccuracies in the NGR. In particular, the definition for interest rates used in the DWGM (NGR 203) and the STTM (NGR 364) require amendment. In order to streamline the amendments, the definitions of interest rates across the DWGM, STTM and Natural Gas Services Bulletin Board (BB), it is necessary to make changes to the definition for *applicable interest rate* used in the BB at the same time.

In the BB, the *applicable interest rate* is “the interest rate quoted from time to time by Australia and New Zealand Banking Group Limited as its reference rate or, should there cease to be such a reference rate, the rate which that bank designates as being an appropriate substitute for the reference rate” (NGR 141). The ANZ reference rate is now outdated and ceases to exist. If AEMO were to calculate interest for the purposes of the BB, it would contact ANZ for the appropriate substitute rate.

### 4. Proposed amendment

The rule change proposal will align the definitions for *interest rate* in the DWGM and the STTM, and the definition for *applicable interest rate* in the BB. The proposal seeks to align all three definitions. The proposal will also seek to change references to *applicable interest rate* for the BB to *interest rate*.

It is proposed that definition for *interest rate* for the three markets will be:

1. A reference in this part to the interest rate is a reference to the Bank Bill Swap Reference Rate, identified by AEMO on its website, published by the Australian Financial Markets Association.
2. If the above rate ceases to exist, or that rate becomes, in AEMO's reasonable opinion, inappropriate, the interest rate is a rate determined and published by AEMO.

Interest rate calculations for the BB are used where there has been a manifest error in the invoicing for services or in the case of a disputed invoice. AEMO, as the BB operator, has not, to date, had to calculate interest for either of these purposes and it is unlikely that interest is required to be calculated for the Bulletin Board in the future. Should it ever be charged, interest liability is likely to be immaterial given that the total cost of the BB is approximately \$200,000 per annum, participant fees are commensurately small and currently interest arises in relation to the obligation to pay fees. In this context, altering the definition of interest rate from the ANZ rate to the proposed BBSW rate is unlikely to have a significant effect on the market.

Once the definitions in the three parts have been aligned, it will be possible to simplify the Rules by removing the definitions from Parts 18, 19, and 20 and inserted into the general definitions section which applies to the NGR in its entirety (rule 3).

In order to achieve this streamlining, it is also proposed that the definition of *default interest rate* be used in clause 194(4) for the Bulletin Board in the place of the words “at the interest rate which is 2% above the applicable interest rate”. The definition of the *default interest rate* for both the STTM and the DWGM is “an interest rate of 2% above the interest rate”. The amendment would simplify the Rules. There would be no material change to the market due to this change

## **5. Issue with methodology for interest calculation**

Interest for the BB may be calculated when there is a manifest error in the invoices for BB services or in the case where a dispute results in the requirement to calculate interest. The clauses which deal with these circumstances specify that interest must accrue daily. The NGR is silent as to whether this should mean accrue daily on a simple interest basis or accrue daily with daily compounding.

## **6. Proposed amendment**

AEMO proposes to clarify that these clauses mean interest calculated daily on a simple basis. Such a change would align with the methodologies proposed and used in the DWGM and STTM.

As mentioned, there has not been a requirement to calculate interest for the purposes of the BB. Also, as mentioned, since the total cost of the BB is around \$200,000 any interest calculation required would result in only small sums of money. AEMO considers that the amendment would be unlikely to have a significant effect on a market for gas.

## **7. Invitation to comments**

AEMO invites comments on the proposed changes to the BB Rules. Please forward these to Elizabeth O'Brien at [elizabeth.obrien@aemo.com.au](mailto:elizabeth.obrien@aemo.com.au) by Friday, 20 August 2010.

## **8. Next steps**

Pending consideration of comments received, AEMO will draft the new Rule change proposal and submit this to the AEMC. At this stage, AEMO proposes to put forward the Rule change proposal as "non-controversial" as defined under section 290 of the NGR since there would be no material effect to the BB services or the DWGM or STTM gas markets.

A summary of all the proposed changes to the calculation of interest is contained in Attachment A and a summary of the changes to the definition for interest rates and the proposed change to the rate to be used is contained in Attachment B.

Elizabeth O'Brien  
**Regulatory Analyst**

## Attachment A: Amendments to calculation of interest

Market	Circumstance	Market and System Operations Rules (v31)		National Gas Rules (v2)		Draft Proposed Rule change
		Clause	Relevant extracts	Clause	Relevant extracts	
<b>Declared Wholesale Gas Market</b>	<b>Compensation amounts</b>	3.6.6(f)	Interest is to be calculated on a daily basis and aggregated for the period.	238(4)	Interest is to be compounded daily.	Interest is to be calculated on a simple interest basis.
		3.6.6(k)	Interest is to be calculated on a daily basis and aggregated for the period.	238(6)	Interest is to be compounded daily.	Interest is to be calculated on a simple interest basis.
	<b>Adjustments to final statements for revised statements</b>	3.6.19 (d)(2)	...interest calculated on a daily basis at the interest rate for the period...	249 (4)(b)	...interest (compounded daily) at the interest rate for the period ....	Interest is to be calculated on a simple interest basis.
	<b>Overdue amounts</b>	3.6.23(b)	...the default interest rate calculated as simple interest on a daily basis ... with interest compounding on monthly rates on the last day of each month....	253(2)	...the interest accrues at the default interest rate, compounding daily...	[Interest is to be] calculated as simple interest on a daily basis ... with interest compounding monthly on the last day of each month while the unpaid moneys remain outstanding.
<b>Short Term Trading Market</b>	<b>Revised Statements</b>	-	-	473(5)(b)	....plus interest calculated on a daily basis at the interest rate...	....plus interest calculated on a daily basis at the interest rate... Interest is to be calculated on a simple interest basis.
	<b>Determination of Payment claims</b>	-	-	466(4)	Interest is payable on amounts ... calculated on a daily basis at the interest rate ...	Interest is payable on amounts ... calculated on a daily basis at the interest rate... Interest is to be calculated as simple interest on a daily basis ... with interest compounding monthly on the last day of each month while the unpaid moneys remain outstanding.
	<b>Overdue amounts</b>	-	-	476(2)	...calculated on a daily basis at the default interest rate	...calculated as simple interest on a daily basis at the default interest rate

Market	Circumstance	Market and System Operations Rules (v31)		National Gas Rules (v2)		Draft Proposed Rule change
		Clause	Relevant extracts	Clause	Relevant extracts	
Natural Gas Services Bulletin Board	Payment of invoices –error where Shipper has been over charged	-	-	194(3)(a)	... with interest... calculated at the applicable interest rate, accruing on a daily basis...	... with interest... calculated at the applicable interest rate, calculated as simple interest on a daily basis...
	Payment of invoices – error where Shipper has been under charged	-	-	194(4)	...interest... at the interest rate which is 2% per annum above the applicable interest rate, accruing on a daily basis...	...interest... at the interest rate which is 2% per annum above the applicable interest rate, calculated as simple interest on a daily basis...
	Disputed tax invoices	-	-	195(3)	...together with interest...at the applicable interest rate, accruing on a daily basis...	...together with interest...at the applicable interest rate, calculated as simple interest on a daily basis...

## Attachment B: Amendments to Interest Rate Definitions

Market	Rate	National Gas Rules (v2)		Draft Proposed Definition	Rate currently used	Proposed Rate to be used
		Reference	Definition			
<b>Declared Wholesale Gas Market</b>	<b>Interest rate</b>	NGR 203	<p>(1) A reference in this Part to the interest rate is a reference to the Bloomberg Bank Bill Swap Reference Rate most recently published in the Australian Financial Review.</p> <p>(2) If the above rate ceases to exist, or that rate becomes, in AEMO's reasonable opinion, inappropriate, the interest rate is a rate determined and published by AEMO.</p>	<p>(1) A reference in this Part to the interest rate is a reference to the 30 day Bank Bill Swap Reference Rate published by the Australian Financial Markets Association.</p> <p>(2) If the above rate ceases to exist, or that rate becomes, in AEMO's reasonable opinion, inappropriate, the interest rate is a rate determined and published by AEMO.</p>	90 day Bank Bill Swap Rate sourced from Australian Financial Markets Association	30 day Bank Bill Swap Reference Rate that is calculated by the Australian Financial Markets Association
<b>Short Term Trading Market</b>	<b>Interest rate</b>	NGR 364	<p>(a) the Bloomberg Bank Bill Swap Reference Rate identified by AEMO on its website for the purposes of this Part, as most recently published in the Australian Financial Review; or</p> <p>(b) if no such rate is published or, in AEMO's reasonable opinion, appropriate, a replacement rate determined and published by AEMO.</p>	<p>(1) A reference in this Part to the interest rate is a reference to the 30 day Bank Bill Swap Reference Rate published by the Australian Financial Markets Association.</p> <p>(2) If the above rate ceases to exist, or that rate becomes, in AEMO's reasonable opinion, inappropriate, the interest rate is a rate determined and published by AEMO.</p>	90 day Bank Bill Swap Rate sourced from Australian Financial Markets Association	30 day Bank Bill Swap Reference Rate that is calculated by the Australian Financial Markets Association
<b>Natural Gas Service Bulletin Board</b>	<b>Applicable interest rate</b>	NGR 141	the interest rate quoted from time to time by Australia and New Zealand Banking Group Limited as its reference rate or, should there cease to be such a reference rate, the rate which that bank designates as being an appropriate substitute for the reference rate.	<p>(1) A reference in this Part to the interest rate is a reference to the 30 day Bank Bill Swap Reference Rate published by the Australian Financial Markets Association.</p> <p>(2) If the above rate ceases to exist, or that rate becomes, in AEMO's reasonable opinion, inappropriate, the interest rate is a rate determined and published by AEMO.</p>	Rate to be determined by ANZ should the need arise	30 day Bank Bill Swap Reference Rate that is calculated by the Australian Financial Markets Association