

Minutes

Standardisation Project Team Meeting No. 5

Date/Time: Wednesday-Thursday, 26-27 April 2017, 10.00 am

Location: Level 6, 201 Elizabeth Street, Sydney

Attendees:

<i>Project team</i>	Sally Calder, AGL Ainslie Lynch, APA Simon Taylor, DBP Samantha Staunton, Epic Michael Handley, Origin Brad Mills, Shell Peter Frost, EnergyAustralia Peter Tolhurst, Stanwell Jan Peric, Jemena Allan Ford, Arrow
<i>GMRG</i>	Nicole Dodd, analyst Trent Morrow, specialist technical advisor Katherine Lowe, GMRG senior technical advisor Sandra Gamble, GMRG facilitator

Apologies: Angelo Mantsio, specialist technical advisor

Purpose: Preliminary discussion on terms

Reference: ST.5.20170426

	Agenda Item	Discussion	Actions	Decisions / Views
1	Recap on previous meeting	<p>The minutes of the previous meeting were approved with some amendments.</p> <p>The team noted the progress that had been made by the other project teams.</p> <p>The team reflected:</p> <ul style="list-style-type: none"> • Progress had been made last meeting in coming to a preliminary view for standardising some terms. • Challenges faced in coming to in principle agreement reflect the extent of commercial negotiations in industry and the nuances between different pipelines. • Discussed the challenge in finding the best solution rather than the lowest common denominator in achieving standardisation. • Commented the drafting would likely unearth further issues, and discussed the approach to providing sufficient details to the legal drafter. The team noted the GMRG had engaged in preliminary discussions with a legal firm to provide legal drafting. <p>The team noted that, given Angelo Mantsio's apology, the discussion on the perspective of an intermediary is to be deferred.</p> <p>The team noted the GMRG is seeking additional resources given the accelerated timeline.</p>		
2	Confirm in principle agreement for contract terms	<p>The team confirmed their agreement of the preliminary view in the last meeting for:</p> <ul style="list-style-type: none"> • Start of gas day • Gas specification • Services – definition • Services – priority • Nomination procedure <p>The team discussed the option to recommend law changes if they considered there were unnecessary</p>	<p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Responsibility and liability for losses and damages if off-specification gas is put into the pipeline are to be further discussed in the context of the wider liabilities and indemnities clause. • Title of gas is to be further discussed given it passes to the operator on the 	<p>The team provided in principle agreement, subject to testing, for the gas quality clause:</p> <ul style="list-style-type: none"> • Recommend the gas quality clause includes: <ul style="list-style-type: none"> ○ Gas supplied must be in accordance with the gas specification. ○ The service provider can refuse to accept gas if it is off-specification.

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		<p>regional restrictions applied through law.</p> <p>Gas quality was further discussed and in principle agreement was reached for the majority of the clause as detailed to the right in the 'Decisions/Views' column.</p> <ul style="list-style-type: none"> • The team discussed what options are available to each party if off-specification gas is put into the pipeline, and who may be responsible. 	<p>Dampier to Bunbury Pipeline, and this is a unique arrangement.</p>	<ul style="list-style-type: none"> ○ The service provider must use reasonable endeavours to not receive gas if instructed not to. ○ Each party must advise the other as soon as practicable once they are aware of off-specification gas. • The party responsible for odourisation is to be denoted via a check box for each pipeline. <p>Note, liabilities for off-specification gas are to be further discussed in the context of the wider liabilities and indemnities in the contract.</p>
3	Metering	<p>The team continued discussing the metering provisions to be recommended to be included in the standard operational transfer agreement, and reached in principle agreement for the metering clause as detailed in the 'Decisions/Views' column to the right.</p> <ul style="list-style-type: none"> • The team commented that these provisions are rarely called upon, but when needed, the results can be material. • For liquidity in secondary trading, the team suggested standardising the metering provisions across all pipelines in the standard secondary agreement may not be necessary, with the importance being that all parties have equal access to information. • Discussed the technical details of the metering provision, including operation, maintenance, tolerance, calibration and testing of meters. • Discussed whether the rights associated with error correction of metering measurement can be standardised, including: <ul style="list-style-type: none"> ○ the right to raise an issue, ○ the appropriate party to raise the error with, 	<p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Impact of title on metering given it passes to the operator on the Dampier to Bunbury Pipeline and the flow on impact on liability. • Ability to query a bill and provisions for dispute resolution to be discussed alongside billing provisions. 	<p>The team provided in principle agreement, subject to testing, to recommend that the metering clause in the standard operational transfer agreement:</p> <ul style="list-style-type: none"> • Refers to a pipeline specific 'metering and measurement guideline' or contract schedule for pipeline specific details including: <ul style="list-style-type: none"> ○ Operation and maintenance ○ Tolerance ○ Calibration and testing • Establishes the secondary capacity holder has a right to raise an error with the pipeline operator, with the specific process and error correction timeframes to be specified in the pipeline specific 'metering and measurement guideline' or contract schedule • Accommodates ownership of meters (without needing to standardise the specifics).

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		<ul style="list-style-type: none"> ○ the process for raising an issue and performing tests, and ○ the timeframes for error correction. ● Standardising the process and timeframe for error correction is challenging given the error correction rights vary for primary shippers on different pipelines and all shippers on a pipeline can be financially impacted when an error is corrected. As such, standardising this right across pipelines for secondary trade could result in different error correction regimes for different shippers on the same pipeline. ● Discussed that the pipeline operator is the appropriate party for the secondary shipper to raise an error correction with, through the relationship established in the operational transfer agreement (with the exception of bare transfers). ● Discussed the applicability of error correction to short term traders. ● Discussed the impact of differing metering provisions between interlinking pipelines and considered this was appropriate given the recommendation is likely to be that secondary shippers shipping across pipelines will remain required to be set up in the IT systems specific to each pipeline for making nominations (at a minimum). ● Discussed applicable laws such as being compliant with the metering scheme in Queensland. 		
4	Remaining contract terms	The team held a preliminary discussion regarding potential standardisation for the following contract terms. Note, where the team has reached in principle agreement, this is recorded in the 'Decisions/Views' column.	All - For all items that have in principle agreement (as per 'Decisions/Views' column), engage in preliminary discussions with respective organisations and wider industry that recommendations are suitable.	The team provided in principle agreement, subject to testing, for the following clauses:

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	<p><u>Curtailment Procedures</u></p> <ul style="list-style-type: none"> • Commented there are two elements to this clause; permitted and non-permitted curtailment events and the procedures that follow. • Discussed the curtailment events and associated liabilities of each, including planned, unplanned and emergency maintenance and associated caps and provisions. • Noted that pro-rata within service can occur via MDQ or nomination depending on the pipeline and this should be standard for all shippers on a specific pipeline. • Discussed the importance of all parties having equal access to information, including maintenance schedules, and who is responsible for providing this information to the secondary trader. Noted that this should be made available as soon as practicable. <p><u>Allocation Procedures</u></p> <ul style="list-style-type: none"> • Commented allocation is the meeting point for the commodity gas and haulage of gas, and thus this is a vital element and can a barrier for new entrants due to the complexity. • Discussed the elements of the clause as referencing the applicable allocations agreement(s) specifying: <ul style="list-style-type: none"> ○ The allocation agent ○ Admin fee ○ Inputs ○ Calculations ○ Outputs • Discussed the current arrangements for allocation where, in general, <ul style="list-style-type: none"> ○ the producer is responsible for allocation of receipt onto a pipeline, ○ the shippers agree to be bound by a multi- 	<p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Liabilities of each curtailment event. • Notifications process for maintenance to be discussed in context of information requirements. <p>Pipeline operators – research the process for new entrants to become a party to allocation agreements.</p> <p>GMRG – discuss requirements for new entrants to become party to producer allocation agreements with APPEA.</p> <p>GMRG – add allocations to the “parking lot” so can dedicate a meeting to allocation agreements and provision discussion. This could include worked examples of how the ‘new secondary trader’ entity may work.</p>	<p><u>Curtailment Procedures</u></p> <ul style="list-style-type: none"> • Curtail according to service priority (acknowledging that there are items on the parking lot to further define the products and priority once the auction product has been defined). • Curtailment within firm services to be pro-rated via MDQ, nomination, or scheduled quantity according to pipeline specific schedule. • Permissible curtailment events (each with an uncapped right for the secondary contract) to include: <ul style="list-style-type: none"> ○ Planned maintenance ○ Unplanned maintenance, including emergency maintenance required to protect the operational integrity of the pipeline or safe operation of the relevant pipeline and in accordance with laws and approvals. ○ Force Majeure affecting the pipeline operator. ○ Where gas has not been receipted onto the pipeline.

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		<p>shipper agreement for delivery on a pipeline.</p> <ul style="list-style-type: none"> ○ If the shippers do not have an agreement in place, the default tends to be to for the pipeline operator to pro-rata the allocation based on nominations. ○ For interconnecting pipelines there is usually a confirmation step with the interconnecting party. ● Considered a potential solution and opportunity to streamline the process for new entrants and intermediaries: <ul style="list-style-type: none"> ○ List all secondary traders as a single entity on the multi-party agreements at the main trading points such that each new entrant does not need to individually sign up to each allocations agreement separately. ○ This entity would be allocated the net quantity of all those shippers, and then this would be sub-allocated amongst the individual shippers as per the allocation rules that would be put in place for the entity. ○ The allocation agent for the entity could also act as the clearer for intermediaries allowing their participation in the secondary market. ● Discussed contribution agreements. ● Discussed the confidential nature of the agreements. ● At a minimum, there could be a requirement to publish information that provides clarity for who to contact and how to get onto allocation agreements at each point, and provides a realistic timeline for gaining access. 		
5	Break	N/A	N/A	N/A
6	Project team road map (1)	The team agreed the approach for discussing each term in turn was working; there may be too much left to cover the next day.		

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7	Break between days	N/A	N/A	N/A
8	Recap on previous day	The team noted that where the recommendations are not standardise the term in entirety, the reason is to be clearly articulated, and likely to be due to technical difficulties.		
9	Remaining contract terms	<p>The team held a preliminary discussion regarding potential standardisation for the following contract terms. Note, where the team has reached in principle agreement, this is recorded in the 'Decisions/Views' column.</p> <p><u>Imbalance tolerance / penalty</u></p> <ul style="list-style-type: none"> • Commented that imbalance is directly related to allocations. • Discussed the definition and calculation of imbalance on difference pipelines. • Discussed whether the charge calculations and tolerances are appropriate to be standardised as this impacts finances of pipeline operators. The team discussed if the complexity introduced through differences could impact liquidity, especially for intermediaries, or if this was a cost of doing business. • Discussed the reasons for differences in the imbalance tolerance, penalties, and calculation applied on different pipelines including pressure or flow operation, percentage contracted, flexibility able to be accommodated, and timeframes. • Discussed the propensity and process for imbalance trading on different pipelines, including whether it is allowed and if it is limited when trading imbalances can only be to reduce imbalance. • Discussed that for imbalances, the entity idea for all secondary shippers considered for allocations would be 	<p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Calculation of imbalance. • Mechanism for correction of imbalance by the pipeline operator. <p>Pipeline Operators – determine if there are technical reasons for exclusion of imbalance trading on pipelines.</p>	<p>The team provided in principle agreement, subject to testing, for the following clauses:</p> <p><u>Imbalance tolerance</u></p> <ul style="list-style-type: none"> • Recommend the standard definition of imbalance uses the APA standard contract as a starting point: ‘in respect of a period of time, the difference between the quantity of Gas received from or on account of Shipper at the Receipt Points and the quantity of Gas delivered to or for the account of Shipper at the Delivery Points during that period.’ • Recommend the contract accounts for both authorised and unauthorised imbalances. • Recommend the process for the pipeline operator to correct the imbalance if it may or is impacting the service provision to other shippers on the pipeline is included. The mechanism for this correction is yet to be determined, and could differ between different pipelines. • Recommend the provision for imbalance trading to be included in the contract, with the pipeline operator required to accept trades if requested and confirmed by the shippers. The financial flow for the trade between the shippers would be decided outside of the operational transfer agreement.

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	<ul style="list-style-type: none"> • unlikely to work, as shippers would not be able to use imbalance as a method of gaining flexibility. The team noted the standard contracts often specify that shippers must use reasonable endeavours to ensure that they are not in imbalance. • Commented changes to the imbalance regime on pipelines may need to also be accommodated in primary contracts. • Discussed ability for provision for imbalance trading to be provided in the contract, with the mechanism indicated through a tick box for on a platform or through the contract. • Discussed the process for agreeing and submitting Market Schedule Variations in the Short Term Trading Market hubs, including the provision of information so shippers know who may be a counterparty. <p>Discussed the mechanisms available to pipeline operators to correct imbalances such as buying and selling gas, and curtailment.</p> <p><u>Daily variance tolerance / penalty</u></p> <ul style="list-style-type: none"> • The team commented this is a clause specific to APA and other pipeline operators do not include it, and thus it may be able to be removed. <p><u>Overrun tolerance / penalty</u></p> <ul style="list-style-type: none"> • Defined as haulage in excess of MDQ, with provision for both authorised and unauthorised overrun. • Discussed the nuances in the definitions between different pipelines as to what path or points it is applied to. • Discussed the clause for unauthorised overrun is similar across the agreements in place on different pipelines. 	<p>AL – Determine the materiality of this clause for APA and the extent to which it manages risk that is not managed by the other provisions.</p>	<p><u>Overrun tolerance / penalty</u></p> <ul style="list-style-type: none"> • Recommend the clause emulates the Jemena standard EGP transportation contract Clause 7 as a starting point, including: <ul style="list-style-type: none"> ○ The Shipper may nominate Overrun gas ○ The Service Provider may authorise Overrun gas nominated by the shipper if, in the Service Providers' sole discretion, there is sufficient Capacity to deliver the Overrun Gas

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		<p><u>Transfers, assignment and novation of capacity</u></p> <ul style="list-style-type: none"> • Discussed this clause was unlikely to be used for operational transfer agreements, but should be included. • Commented that this clause was essentially already standard across the agreements. <p><u>Prudential requirements</u></p> <ul style="list-style-type: none"> • Considered that prudential requirements should cover: <ul style="list-style-type: none"> ○ The trigger for requesting credit support, ○ The mechanism for credit support (ie. what is acceptable), and ○ The potential credit events (eg. default) and consequences. • Discussed the prudential requirements for the relationships between both pipeline operator and secondary shipper, and between primary and secondary shippers. <ul style="list-style-type: none"> ○ The relationship between pipeline 	<p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Novation of secondary shipper to shipper capacity trading agreements 	<ul style="list-style-type: none"> ○ Service Providers must use reasonable endeavours to deliver Authorised Overrun Gas ○ Service Providers are under no obligation to accept a nomination for Overrun Gas. ○ Overrun Gas is interruptible at the absolute discretion of the Service Providers. • The definition of Overrun as referenced to the MDQ or scheduled quantity could be managed in a schedule to the contract for pipeline specific requirements to maintain consistency in pipeline operator IT systems. • Charges for both authorised and unauthorised overrun gas could also be specified in a pipeline specific schedule. <p><u>Transfers, assignment and novation of capacity</u></p> <p>Recommend this clause includes:</p> <ul style="list-style-type: none"> • General prohibition on transfer or change in control without consent, not to be unreasonably withheld for a technically and financially capable assignee. • Bare transfers of contracted capacity permitted, Shipper remains liable.

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	<ul style="list-style-type: none"> ○ operator and shipper includes both liability for damages and operational issues (imbalances and overruns). ○ Credit risk between two shippers that are trading will usually be considered on a case by case basis by the respective organisations and this is monitored in real time. • Discussed whether pipeline operators may be able to set a notional trade limit in the secondary operational transfer agreement, and how this would be administrated. • Discussed the potential role of the exchange platform operator in holding credit support for transactions. • Discussed the credit support requirements for a new entrant shipper with producers, pipeline operators, markets and other shippers. <p><u>Representations and warranties</u></p> <ul style="list-style-type: none"> • Discussed shippers obligation to comply with safety law and the relevant gas safety case for their retail license. • Discussed the representations and warranties specified in the various agreements, and the interaction of breaches of contracts with illegal behaviour. • Discussed if the pipeline operator warrants they will not over-commit the pipeline and how this currently managed. • Discussed the reciprocity of the provisions, and that some of the pipeline standard agreements specify more extensive reciprocity than others. <p><u>Possession, control and responsibilities</u></p> <ul style="list-style-type: none"> • Discussed this clause is essentially standard for most pipelines for possession and control 	<p>All – consider the following to make up the representations and warranties clause:</p> <ul style="list-style-type: none"> • those specified in the table for Epic’s contract are adequate for each party, plus • those provisions specific to shippers in APA’s standard contract to form the recommendation for this provision <p>GMRG – add to “parking lot” to revisit at a later stage:</p> <ul style="list-style-type: none"> • Legal responsibility for gas while the pipeline operator is in possession, given this varies between 	<p><u>Possession, control and responsibilities</u> Recommend this clause includes:</p> <ul style="list-style-type: none"> • Gas can be comingled

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		<p>and this forms the recommendation.</p> <ul style="list-style-type: none"> Responsibilities and loss can be more contentious, and has been added to the parking lot to discuss in the wider context of liabilities and indemnities. <p><u>Title</u></p> <ul style="list-style-type: none"> Discussed that shippers are required to provide System Use Gas, but there are differences in how shippers contribute it on different pipelines, and there are different definitions for System Use Gas as to whether it includes losses or not. Discussed that for the majority of pipelines, title of gas stays with the shipper, and this forms the recommendation for standardisation of this clause. 	<p>pipelines, and there are also various carve outs.</p> <p>ST – Determine if having the title for the gas remaining with the shipper would be feasible for the Dampier to Bunbury pipeline, where title currently transfers to the operator. This is related to many items that have been added to the parking lot.</p>	<ul style="list-style-type: none"> Possession and control passes from the shipper to the service provider at receipt onto the pipeline and back to the shipper at delivery. <p><u>Title</u></p> <p>Recommend this clause includes:</p> <ul style="list-style-type: none"> Title of gas stays with the shipper. Shippers are required to provide System Use Gas, with the process for doing so specified in a schedule.
10	Break	N/A	N/A	N/A
11	Project team road map (2)	<p>The team discussed the possibility to rotate meetings between Melbourne, Brisbane and Sydney locations to share the travel requirements between project team members. Video and telephone dial in will be considered on a case-by-case basis if required.</p>		
12	Next meetings	<p>Meeting 6 to be a double meeting held face-to-face on Tuesday 9 May (10am to 3pm) and Wednesday 10 May (9am to 3pm) in Sydney.</p>	<p>GMRG – Investigate possibility to rotate meeting locations.</p>	