

# Minutes

## Standardisation Project Team Meeting No. 7

**Date/Time:** Tuesday 23 May 2017, 11.00 am | Wednesday 24 May 2017, 9:00 am

**Location:** Level 26, 181 William St, Melbourne

**Attendees:**

<i>Project team</i>	Sally Calder, AGL Ainslie Lynch, APA Samantha Staunton, Epic Michael Handley, Origin Brad Mills, Shell Peter Frost, EnergyAustralia Jan Peric, Jemena
<i>Guests</i>	Josh Row, Epic Roger Shaw, AEMO (Day 1) John Jamieson, APA (Day 2)
<i>GMRG</i>	Nicole Dodd, analyst Angelo Mantsio, specialist technical advisor Katherine Lowe, GMRG senior technical advisor Sandra Gamble, GMRG facilitator

**Apologies:** Peter Tolhurst, Stanwell  
Simon Taylor, DBP  
Allan Ford, Arrow\*  
\*Allan Ford has left the project team due to competing work commitments.

**Purpose:** Allocation Agreements and Receipt and Delivery Point Flexibility

**Reference:** ST.7.20170523

	<b>Agenda Item</b>	<b>Discussion</b>	<b>Actions</b>	<b>Decisions / Views</b>
1	<b>Recap on previous meeting</b>	<p>The minutes of the previous meeting were approved with minor amendments.</p> <p>The team reflected:</p> <ul style="list-style-type: none"> <li>• The level of discussion regarding liabilities was not surprising, given these are complex regimes.</li> <li>• Progress had been made, the discussion was constructive and had resulted in some pragmatic outcomes.</li> </ul> <p>The team noted the progress that had been made by the other project teams, and the consultation paper for the Governance of the trading platform and auction had been released.</p>	<p>GMRG – Circulate diagrams, summaries, and timelines as these become available from the other project teams.</p>	
<b>Tuesday 23 May 2017 – Allocation Agreements</b>				
2	<b>Allocation agreements – access by secondary capacity holders</b>	<p>The team considered the main allocation receipt and delivery points on the east coast pipelines, and discussed the current arrangements for the major points (as shown in the figure below the table). The team noted that:</p> <ul style="list-style-type: none"> <li>• At every point, an allocation agent (ie. an appointed party – typically a pipeline operator, producer or in the case of the DWGM, AEMO) and an allocation agreement (specifying rules) are required. Shippers have to be a party to the agreement as a pre-condition to transporting gas, and registered in the appropriate systems prior to the gas day.</li> <li>• Pipeline operators may base their allocation of receipts from producers or through separate arrangements.</li> <li>• New entrants tend to sign allocation agreement(s) in parallel with signing primary Gas Transportation Agreements with the pipeline operator.</li> </ul>		

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		<ul style="list-style-type: none"> <li>• Pro-rata tends to be used as the default where there is no allocation agreement in place, and often as the allocation rules in the allocation agreements. There is generally a special reason for not using pro-rata as the allocation rule.</li> <li>• Setting up an allocation agreement from scratch can be challenging and time consuming; it is generally straight forward to sign on once this has been done.</li> <li>• There can be separation between allocation at points and allocation of transportation between points.</li> <li>• Some points may have deemed arrangements, eg. notional points.</li> <li>• When signing up to the APA zero-MDQ Operational Transport Agreement, shippers can sign up to all points with zero MDQ assigned, in parallel with the corresponding allocation agreements.</li> </ul> <p>Roger Shaw (AEMO) provided a presentation to the team on allocation in the DWGM and the STTM. The team discussed:</p> <ul style="list-style-type: none"> <li>• The time required for a market participant to set up to be allocated gas in the markets, and noted that signing up for allocation occurs in parallel with registration. Changes may be required to the market rules to change maximum allowed times.</li> <li>• The process for making changes to allocation agreements generally requires a party to sign up to the existing agreement, and then suggest changes that all signees have to agree to.</li> <li>• The potential interface issues with the market systems, including market operator service and contingency gas.</li> </ul>	<p>GMRG – Discuss market interface issues with other project teams.</p>	

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		<ul style="list-style-type: none"> <li>• Connection agreements between the facility owners of interconnecting facilities.</li> </ul> <p>The team discussed potential opportunities for standardisation, including:</p> <ul style="list-style-type: none"> <li>• The potential opportunity to generate standard terms for allocation agreements (with bespoke calculations) and discussed the benefits of different options, such as standard approaches for owner by owner or across the whole market.</li> <li>• The current opacity of the allocation agreements and confidentiality requirements. The team considered there may be an opportunity to improve transparency to give confidence to new entrants. For example, information could be provided at a 'one-stop shop' for how to sign up to allocation agreements and who to go to. The team noted that some information can be released to intending participants currently, but not before, due to confidentiality protections.</li> </ul> <p>The team discussed other aspects of allocation agreements that may be presenting a barrier to a liquid secondary capacity market, including:</p> <ul style="list-style-type: none"> <li>• Discussing where points may have been funded by a user, rebate provisions for use of these points and concerns with the potential for free rider behaviour.</li> <li>• The need to preserve investment signals.</li> <li>• Potential allocation risk for intermediaries who never intend to ship gas. It was noted that the integration of the platform and the auction could allow any capacity remaining with intermediaries to be</li> </ul>	<p>GMRG – Add improving the transparency of the allocation agreements to parking lot, to be discussed with the transparency arrangements.</p>	

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		<p>cleared through the auction.</p> <ul style="list-style-type: none"> <li>• Unique costs and processes to administer allocation agreements.</li> </ul> <p>The team discussed the concept of a third party signing up to allocation agreements on behalf of the secondary market (as per ref: ST.5.20170426.4). The team considered whether the administration cost of this would be justified. The team noted that participants in the secondary market would need to sign up to agreements with pipeline operators if they intend to ship gas, and thus could sign up to allocation agreements in parallel with this process. Shippers purchasing capacity with the intention to transport gas will also need to purchase gas and will set up allocation or sub-allocation in this arrangement too.</p>		
3	<b>Break</b>	N/A	N/A	N/A
4	<b>Allocation methodologies</b>	The team discussed how imbalances are associated with allocation, and thus a certain level of sophistication is required to be a participant in the physical market, for those shipping gas.		
5	<b>Project team road map (1)</b>	The team agreed to discuss receipt and delivery point flexibility the following day.	All – Read AEMC papers on receipt and delivery flexibility	
6	<b>Break between days</b>	N/A	N/A	N/A
<b>Tuesday 24 May 2017 – Receipt and Delivery Point Flexibility</b>				
7	<b>Recap on previous day</b>	The team reflected on the prevalence of the topic of receipt and delivery point flexibility in the discussion on allocations.		
8	<b>Receipt and Delivery Point Flexibility – current situation</b>	The team noted the prior research the AEMC had completed in regards to options for providing additional receipt and delivery point flexibility to promote liquidity in the capacity market, including the approach in New Zealand and the US.		

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		<p>The team noted the task was to consider possible solutions, but the detail of implementation on each pipeline would likely be left to the operator.</p> <p>In consideration of Roger Shaw's presentation the previous day, the team:</p> <ul style="list-style-type: none"> <li>• Noted the concept of Close Proximity Injection Points</li> <li>• Discussed the application of the diversity factor in the DWGM to transfer withdrawal capacity priority rights.</li> </ul> <p>The team discussed the current arrangements, and observed that:</p> <ul style="list-style-type: none"> <li>• Moving capacity to receipt or deliver gas between different points has a material impact on the total capacity available to be scheduled, as shown through complex flow modelling.</li> <li>• The demand for capacity at a point tends to be self-controlling (ie. it is unlikely shippers will cumulatively want more access to a point than there is demand for, but there are exceptions – eg. slow demand growth or operational constraints on a day, and these situations will need to be accounted for. Similarly, where points have been invested in by specific shippers, cost recovery options or priority may be required.</li> <li>• The use of a receipt or delivery point by a secondary shipper could impact a third party as well as the seller of capacity, and this may need to be accounted for in a new regime.</li> </ul>		
9	<b>Receipt and Delivery Point Flexibility - options</b>	<p>John Jamieson presented to the group on the use of capacity trading zones to facility capacity trading. The team then:</p> <ul style="list-style-type: none"> <li>• Discussed the difference between providing flexibility in receipt and delivery points for short</li> </ul>	<p>Pipeline operators – consider how zones could be implemented on their own pipelines and other measures to improve receipt and delivery point flexibility. (GMRG will contact APGA to facilitate).</p>	

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		<p>term trading, and the ability for shippers to change their MDQ between points on a longer-term basis.</p> <ul style="list-style-type: none"> <li>• Noted potential buyers can only buy what is being sold, and as such either the seller requires flexibility or the product itself needs to be flexible.</li> <li>• Discussed the difference between capacity at receipt and delivery points, compared to the capacity between points, and that these may not equate.</li> <li>• Noted zones specified to take into account tapering of capacity along length of pipeline.</li> <li>• Noted receipt and delivery points would be grouped separately.</li> <li>• Discussed the application of zoning to bidirectional pipelines.</li> <li>• Discussed the balance between the number of zones and a greater number of points per zone.</li> <li>• Considered bespoke point to point arrangements could be listed on the listing service of the platform.</li> </ul> <p>The team discussed the possible options for providing short term flexibility, including:</p> <ul style="list-style-type: none"> <li>• Using zones in conjunction with primary and secondary capacity rights at receipt and delivery points as has been done in the US.</li> <li>• The team considered the use of zones and primary and secondary access at receipt and delivery points seems to address the investment and free rider issues, but these would need to be revisited.</li> <li>• Using a formula to specify how capacity could be traded across zones as has been done in New Zealand, but questions were raised about how this dealt with technical limitations.</li> </ul>	<p>GMRG – further research arrangements international markets have implemented to provide greater flexibility in receipt and delivery points.</p> <p>GMRG – add confirmation of preservation of investment signals, and cost recovery of prior investments, to the parking lot to revisit once a decision has been made on the approach to improving flexibility.</p>	

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10	Break	N/A	N/A	N/A
11	<b>Receipt and Delivery Point Flexibility - application</b>	<p>The team discussed the process for shippers to change the receipt and delivery points on their primary gas transportation agreements (GTAs) (MDQ at each point or adding more points), including</p> <ul style="list-style-type: none"> <li>• Changes to primary GTAs tend to take 2-4 weeks for pipeline operators to model the flow changes plus there can be parallel legal work in varying contracts. Discussed if 45 days or less is a reasonable maximum limit</li> <li>• Discussed the varying level of complexity in different requests for changing points, dependent on the modelling requirements, which changes the cost and time required.</li> <li>• Discussed the potential for specifying timeframes (for pipeline operators to approve or reject requests, and for the change to be applied) and specifying guidelines for what can be considered in the assessment, eg. having to provide modelling assumptions and techniques to the requestor for understanding.</li> <li>• Discussed what could be an allowable basis for rejecting a change: <ul style="list-style-type: none"> <li>○ Technical – impacts capacity of the pipeline, adversely affecting another customer.</li> <li>○ Commercial – only if results in reduction in revenue for the pipeline operator, ie. to keep the pipeline operator financially whole. For example, this accounts for not allowing financial avoidance if a shipper has underwritten an expansion and is attempting to move their delivery point upstream.</li> </ul> </li> </ul>	<p>GMRG – add improving transparency of requests for changes to receipt and delivery points to the parking lot, including feasibility of providing indicative costs.</p> <p>GMRG – Discuss the following with the Day Ahead Auction and Capacity Trading Platform teams.:</p> <ul style="list-style-type: none"> <li>• interaction of receipt and delivery flexibility</li> <li>• the participation of intermediaries in the market</li> </ul> <p>Pipeline operators – review primary GTAs to determine whether there are many contracts that limit the number of transfer requests a shipper can make.</p>	

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		<ul style="list-style-type: none"> <li>• Discussed the costs of providing the assessment should be passed through to the requestor.</li> <li>• Discussed if there should be a limit on the number of requests that can be made.</li> <li>• Discussed the potential interaction with the Day Ahead Auction and Capacity Trading Platform, and for intermediaries who may not ever haul gas.</li> <li>• Discussed options for the platform operator to match buyers and sellers, information flows to the pipeline operators, and intermediaries who did not sell capacity they had bought.</li> <li>• Discussed how traders would warrant they had the capacity to sell and be able to perform due diligence on an anonymous platform.</li> </ul>		
12	<b>Project team road map (2)</b>	<p>The team noted the discussion on allocations and receipt and delivery point flexibility had been brought forward compared to the original road map. Receipt and delivery point flexibility may require further discussion.</p> <p>Items yet to be discussed include:</p> <ul style="list-style-type: none"> <li>• Application of the terms with preliminary agreement to the agreements other than the operational transport agreement</li> <li>• Application of the terms to park and loan services</li> <li>• Drafting of the agreement once a lawyer has been engaged.</li> </ul>		
13	<b>Next meetings</b>	<p>A joint meeting between the teams will occur on Tuesday 30 May 2017 through AEMO VC facilities to share progress and obstacles between the project teams.</p> <p>The team agreed to postpone the meeting scheduled for June 6 and 7. The team will continue to consider outstanding items in the meantime.</p>		

## Current allocation arrangements (Agenda Item 2)

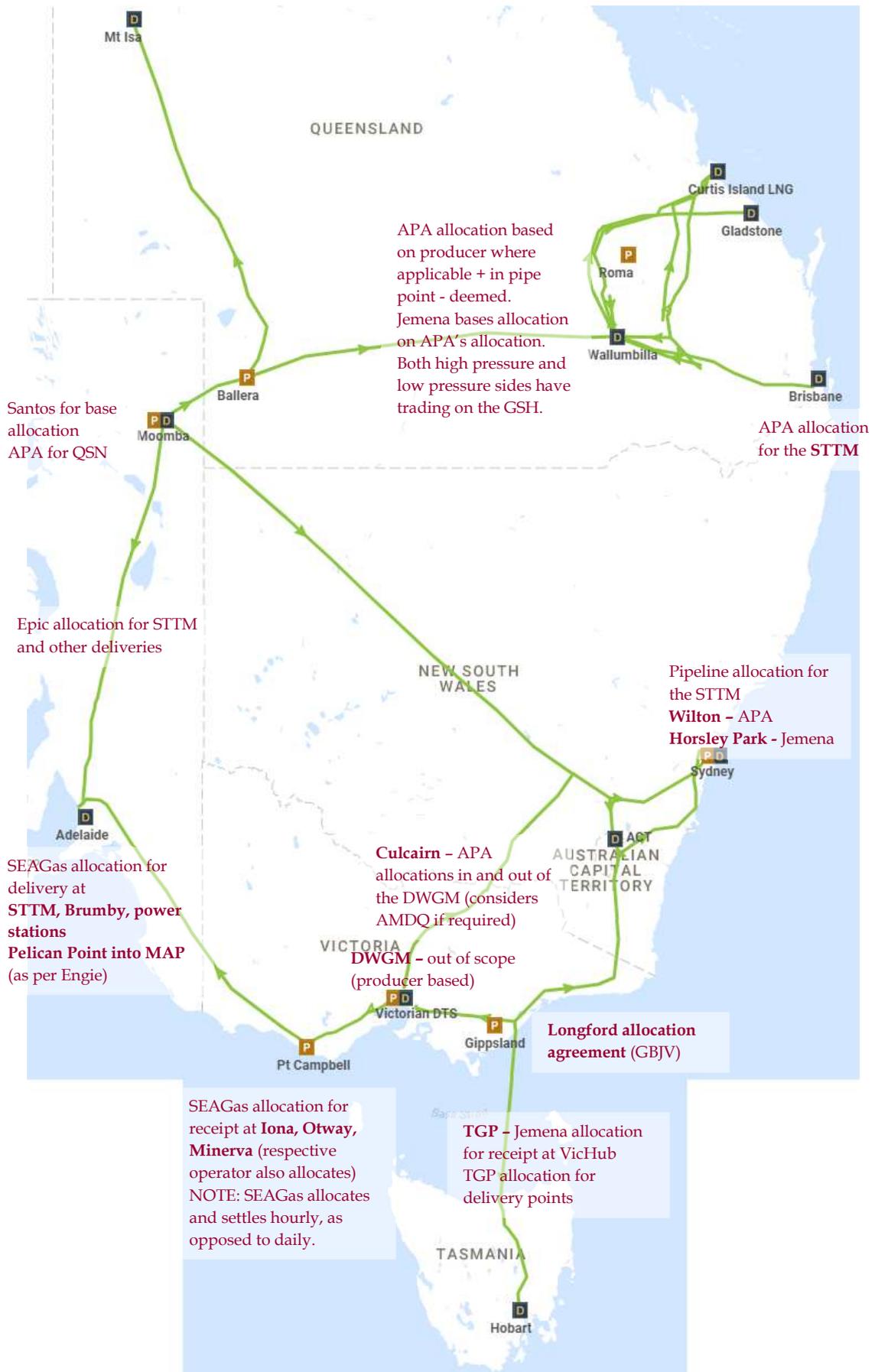


Figure 1: Base diagram: National Gas Services Bulletin Board, AEMO, accessed at [aemo.gbb.com.au](http://aemo.gbb.com.au) on 24/5/2017