

# Minutes

## Standardisation Project Team Meeting No. 11

**Date/Time:** Tuesday 1 August 2017, 10.00 am | Wednesday 2 August 2017, 9.00 am

**Location:** Level 34, 55 Collins St, Melbourne

**Attendees:**

<i>Project team</i>	Sally Calder, AGL Ainslie Lynch, APA Simon Taylor, DBP Peter Frost, EnergyAustralia Samantha Staunton, Epic Jan Peric, Jemena Brad Mills, Shell Allan Ford, Arrow
<i>Guests</i>	Paul Dorrian, Jemena
<i>GMRG</i>	Nicole Dodd, analyst Angelo Mantsio, specialist technical advisor Katherine Lowe, GMRG senior technical advisor Eamonn Corrigan, GMRG facilitator Amanda Seaton, JWS Anthony Groom, JWS

**Apologies:** Michael Handley, Origin

**Purpose:** Operational Transportation Agreement terms and conditions

**Reference:** ST.11.20170801

	Agenda Item	Discussion	Actions	Decisions / Views
1	<b>Recap on previous meeting</b>	<p>The minutes of the previous meeting were approved.</p> <p>The team noted the importance of reviewing the draft of the standardised terms for the reform package, and that the GMRG was still on track to release the consultation paper in August. The GMRG noted the parallel workstreams and that the Information Disclosure and Arbitration mechanism is to come into effect that day (1 August), and that this may have conflicting demands on the team members.</p> <p>The team noted the progress that had been made by the other project teams and observations made by the Advisory Panel, including:</p> <ul style="list-style-type: none"> <li>• The auction team is progressing with three product options that differ with the firmness of the product.</li> <li>• The capacity trading platform (CPT) team agrees the receipt and delivery point flexibility will be workable, with Governance required for the zone definitions and updating arrangements.</li> <li>• AEMO and the CPT team are exploring conditional bidding to deal with demand for combining multiple products in a single trade.</li> <li>• The Advisory Panel also discussed the interaction between the CPT and the auction, highlighting a preference for the CPT product to be of greater value than the auction product to incentivise trading.</li> <li>• All groups have discussed harmonisation of gas day times, noting the AEMC's rule change for 2021 will only impact facilitated markets, and may not result in the rest of the industry following suit. A law change could be considered by the GMRG process to effect</li> </ul>		

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		the change throughout the industry.		
2	<b>Operational Gas Transportation Agreement (OTA)</b>	<p><u>Purpose</u> The group discussed the purpose for the project team in debating the standardised terms is:</p> <ul style="list-style-type: none"> <li>• To flesh out issues for the GMRG to cover in broader consultation</li> <li>• To minimise show stoppers to the extent possible in this forum</li> <li>• To find a way forward for any inconsistencies that are identified.</li> </ul> <p>Noted the project team is not a decision making body, with final recommendations, after broader consultation, to be made by Dr Vertigan to COAG for decision.</p> <p><u>Approach</u> JWS advised they had taken the following approach in drafting the standardised terms:</p> <ul style="list-style-type: none"> <li>• Three documents have been drafted, and circulated prior to the meeting: <ol style="list-style-type: none"> <li>1. <i>Pipeline Standard Terms</i> – which are the common terms to be applicable across all pipelines.</li> <li>2. <i>Pipeline Specific Terms</i> – which outline the principles to regulate the specific terms set by each pipeline operator.</li> <li>3. <i>Secondary Capacity Haulage Contract Agreement Details</i> – which will be signed by the secondary shipper and pipeline operator to give effect to the standard terms via a contract that consists of the two aforementioned documents.</li> </ol> </li> <li>• JWS noted the policy preference was for as much to be standardised as possible.</li> <li>• JWS noted the missing links not yet drafted include the market rules to govern the CPT and day ahead auction, and the governance of the reform package.</li> </ul>		

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		<p><u>General Comments</u>  The team provided general comments regarding the initial draft of the standardised terms, including:</p> <ul style="list-style-type: none"> <li>• Good starting point, with issues remaining that need to be worked through.</li> <li>• Concerns with integrating primary and secondary agreements in the pipeline operator's systems, and that integrating these may have been overlooked. Noted the project team had decided not to open and standardise Primary agreements at the start of the GMRG process, but Primary agreements may need to be amended if they present an impediment to secondary trading.</li> <li>• Discussed the importance of this document if it is to be the industry standard that may drive future standardisation of primary agreements.</li> <li>• Discussed whether shippers may still require a primary transportation agreement alongside this secondary contract, and noted the secondary contract is intended to be the fall back for shippers to set up a relationship with the Pipeline Operator to be able to trade secondary services only, and should not need an additional primary agreement to give it effect.</li> <li>• Noted detailed feedback on the drafting of the clauses to be discussed in this meeting and further comments can be provided offline.</li> </ul> <p><u>Secondary Capacity Haulage Contract Agreement Details</u></p> <ul style="list-style-type: none"> <li>• Clarified this is an umbrella agreement between the secondary shipper and the pipeline operator. This is not the "deal ticket" (ie. where</li> </ul>	<p>GMRG – to discuss the timing requirements with the pipeline operators.</p> <p>JWS consider outstanding items not yet included in the schedule of the Secondary Capacity Haulage Contract</p>	

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		<p>the details for the capacity and price that is traded will be recorded), as this is not the contract between two shippers. As a secondary contract, this will be a zero MDQ contract. The current position is that secondary capacity trading can also be incorporated into primary agreements as determined by the primary shipper and pipeline operator.</p> <ul style="list-style-type: none"> <li>• Discussed a need for having the ability to roll capacity in and out of this contract as the secondary shipper trades capacity.</li> <li>• Discussed the information flow requirements for trades between AEMO (as the CPT operator and day ahead auction operator), shippers, and pipeline operators. Noted the timing requirements for pipeline operators to adjust their systems and allocate capacity appropriately.</li> <li>• Discussed the level of detail that needed to be specified in this document – for example, the credit support arrangements, or whether these can be stipulated in an associated notice. The team agreed the following items to be considered to be added to the schedule: <ul style="list-style-type: none"> <li>○ Receipt and delivery points</li> <li>○ Zero MDQ</li> <li>○ Credit support arrangements</li> <li>○ Pipelines</li> <li>○ Notice mechanism for purchased and sold capacity.</li> </ul> </li> <li>• Discussed a notional MDQ cap to set a trading limit for secondary shippers for credit support assessments. (this was discussed further in Agenda Item 7)</li> <li>• Requested execution to be by an 'authorised representative'.</li> </ul>	<p>Agreement Details, as were identified in the discussion.</p>	

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		<p><u>Pipeline Standard Terms</u>  The group discussed the standard terms clause by clause. Detailed drafting comments will be collated with comments to be provided offline and reflected in the next version. Major items that were debated by the group include:</p> <ul style="list-style-type: none"> <li>• Discussed how to best reflect changes in law and tax changes (e.g. carbon price) pass throughs.</li> <li>• Discussed how to handle verification processes that the primary seller actually has the product they are selling in their contract.</li> <li>• Discussed how to best distinguish between the various services (secondary traded and auction products) in the drafting.</li> <li>• Discussed whether it was appropriate to specify authorised overrun services in the secondary contract as a specific service, or if this should be included in 'other services' and therefore at the pipeline operators discretion. Given not all primary shippers have access to these services, the group considered it may be more appropriate to put these services in 'other services', and allow each pipeline operator discretion in providing these services.</li> <li>• Discussed how to incorporate compression services (that are to be made available on the Day Ahead Auction, as per the AEMC's recommendations) into the secondary contract, and whether the standard product to be traded is a compressed product or not.</li> <li>• Raised concerns regarding making the park service tradeable – often this product is excluded from being allowed to be traded since shippers have a</li> </ul>	<p>GMRG – add to the agenda to discuss change in law provisions in line with the discussing the Governance arrangements.</p> <p>GMRG – consider further with the project teams and JWS how trading of 'park' and 'park and loan' services would work in practice.</p>	

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		<p>rolling park account and trades of this service would be difficult to administer.</p> <ul style="list-style-type: none"> <li>• Clarified understanding of how receipt and delivery point flexibility and zonal trading is to work, as was discussed in the previous meeting. Noted sub-prioritisation of firm products within zones for secondary products, and debated how this would impact the trading of the products.</li> <li>• Discussed under what circumstances a pipeline operator would be able to refuse a nomination and how this will be given effect contractually and practically.</li> <li>• Discussed the implications of traders being able to trade long or short, and what could be applied as a disincentive.</li> <li>• Discussed whether the standard terms should set numeric values as a starting point that can then be varied under specified circumstances in the specific terms (such as for imbalance tolerances) or whether values should either be entirely at the pipeline operators' discretion or subject to some principles.</li> <li>• Discussed the requirement to specify the pipeline operator to act as a reasonable and prudent operator in specific clauses, such as Scheduling.</li> <li>• Discussed where the drafting may impact the pipeline operators' ability to manage their pipeline, such as cut-off times for running schedules (as some pipelines may run this multiple times a day).</li> <li>• Discussed the standard that should be applied to renominations of secondary services (ie. absolute discretion or reasonable endeavours).</li> </ul>		

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		<ul style="list-style-type: none"> <li>Discussed how imbalances are managed day to day, are charged, how accumulated imbalances are cleared and whether the regime applied to long term primary shippers is applicable for temporary shippers. There was a sense the same regime should be applied, with the clearance of accumulated imbalances more relevant for short term shippers.</li> <li>Discussed the importance of MHQ flexibility, especially for interconnecting pipelines that work on a different gas day start time.</li> </ul> <p><u>Pipeline Specific Terms</u> The team briefly discussed what process, if any will be used to sign off the pipeline specific terms. This will be discussed further in line with the Governance of the reform.</p>		
<b>3</b>	<b>Break</b>	N/A	N/A	N/A
<b>4</b>	<b>Operational Gas Transportation Agreement (cont.)</b>	See agenda item 2.		
<b>5</b>	<b>Close for day</b>	N/A	N/A	N/A
<b>6</b>	<b>Recap on previous meeting</b>	The group discussed the pace of reviewing the terms clause by clause the previous day, and noted that this meant the team was unlikely to be able to discuss each clause this meeting. Instead, the discussion will be focussed on specific items considered of high importance to allow JWS to incorporate this feedback into their next draft, and further comments can be provided offline. An additional meeting will be scheduled to further discuss the drafting of the standard terms and governance arrangements (see agenda items 10 and 12).		
<b>7</b>	<b>Operational Gas Transportation</b>	As per agenda item 6, specific clauses the group debated specific clauses:	All project team members to provide written feedback on the drafting for another	

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	<p><b>Agreement (cont.)</b></p>	<p><u>Curtailement</u></p> <ul style="list-style-type: none"> <li>• JWS welcomed additional feedback on the drafting for the liability sub-clause to appropriately reflect practice</li> <li>• Discussed the appropriate process to give effect to curtailments, including: <ul style="list-style-type: none"> <li>○ Notice periods – the team discussed all parties desire for as much notice as possible, whereas specifying a time frame likely to be arbitrary. Similarly for timeframes to act.</li> <li>○ There is not always a formal process, but all parties work together.</li> </ul> </li> </ul> <p><u>Clearing of imbalances</u></p> <ul style="list-style-type: none"> <li>• Discussed the need for pipeline operators to have appropriate mechanisms available to clear imbalances and protect the integrity of their pipe.</li> <li>• Discussed that a key purpose of any imbalance charge is to incentivise clearing of imbalances for shippers who are intermittent (eg. through trading).</li> <li>• Discussed the concept of implementing a MOS-like stack for imbalance clearing, noting this mechanism would have to be put into the Market Rules.</li> <li>• Discussed what different pipeline operators are authorised to do, and thus the standardised terms have to work for all. For example, Epic does not buy and sell gas to deal with imbalances whereas APA and Jemena do.</li> <li>• Considered 3-5 days for clearing imbalance appropriate, and this is to be done on estimates. If not cleared, to be cleared out at some independent market price.</li> <li>• Imbalance trading through the CPT listing</li> </ul>	<p>round of discussion in the next meeting.</p> <p>Epic to consider whether would be able to enter into an agreement for clearing imbalances through purchasing gas.</p> <p>GMRG to consult with smaller shippers the implications of various liability regimes in posing a barrier to trade.</p>	

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		<p>service to be further considered.</p> <ul style="list-style-type: none"> <li>• Discussed reasonable costs of clearing imbalance tend to be passed through to shipper, and this is appropriate going forward.</li> </ul> <p><u>Off-specification gas</u></p> <ul style="list-style-type: none"> <li>• Discussed the implications of off-specification gas to the various parties involved and how this should be reflected in the procedural and liability regimes.</li> <li>• Discussed how each party can manage the risk of off-specification gas.</li> <li>• Discussed the appropriate liability regimes for each party given their risks and mechanisms to manage these, and whether it is appropriate for these to be asymmetrical.</li> <li>• Noted the contract needs to cater for the worst case scenario, regardless of how likely.</li> <li>• Discussed pro-rating of indemnity for mixed streams of gas, and how mixed streams can be managed operationally depending on the configuration of the pipeline and points.</li> </ul> <p><u>Receipt and delivery point flexibility</u></p> <ul style="list-style-type: none"> <li>• Further clarified understanding of zonal trading as was discussed in the previous meeting.</li> <li>• Discussed how sub-prioritisation of firm capacity will be reflected in secondary and primary transportation contracts, and if this will need to be reflected in allocation agreements.</li> <li>• Discussed the information requirements for trading between shippers, pipeline operator and platform operator (AEMO).</li> <li>• Discussed the value in implementing zonal</li> </ul>		

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		<p>trading to facilitate trading.</p> <ul style="list-style-type: none"> <li>• Discussed whether sub-prioritisation would encourage bilateral trading for point-to-point products.</li> <li>• Discussed whether it was appropriate to include commercial reasons as grounds to reject a request to transfer capacity (to a different point).</li> </ul> <p><u>Liability</u></p> <ul style="list-style-type: none"> <li>• Team discussed whether off-specification gas and associated liability all sits within the off-specification gas clause or within the liability clauses.</li> <li>• Discussed the appropriate definition of consequential loss.</li> <li>• Discussed whether caps should be applied, to who (shipper, pipeline operator, both or neither), set at what level, and what should be covered in the cap and not.</li> <li>• Discussed the possible terms of trades made under this agreement, noting the value difference in a single day trade compared to a year-long term.</li> <li>• Noted the differing opinions in the group, with further feedback to be provided and discussed. Noted this will be consulted on broader.</li> </ul> <p><u>Credit support</u></p> <ul style="list-style-type: none"> <li>• Discussed whether a pipeline operator should be able to individually assess and set a secondary shippers' credit support requirements and whether this should be regulated.</li> <li>• Noted credit support can pose a barrier to entry for some shippers.</li> <li>• Noted secondary shippers will be required to put in place credit support arrangements with AEMO (for the CPT</li> </ul>		

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		<p>and DAA) and with each individual pipeline operator. Similarly, if trading bilaterally (not on the CPT), there may be credit support requirements with counter parties.</p> <ul style="list-style-type: none"> <li>• Discussed self-insurance for big companies, and whether this contract should restrict this practice.</li> <li>• Discussed what test should be applied for the pipeline operator to be entitled to call for credit support (trigger and assessment).</li> <li>• Discussed the concept of setting a notional MDQ that the secondary shipper is allowed to trade up to – this will help to set the level of credit support required for operational charges. The risk would sit with the shipper if they buy capacity they are not able to use because it goes above their approved MDQ limit. The pipeline operator would have a right to refuse this nomination.</li> <li>• Discussed to what extent liability is covered by credit support.</li> <li>• Discussed the allowable mechanisms to provide credit support.</li> <li>• Queried whether credit support could be varied – ie. whether shippers could be required to provide it only when they are intending to trade, and not at all times.</li> <li>• Discussed whether credit support could be set via a formula.</li> </ul> <p><u>The general approach of the pipeline specific principles</u></p> <ul style="list-style-type: none"> <li>• Some members noted preference for standardising as much as possible – ie. inputs into tables.</li> <li>• Discussed whether terms should be restated in both documents.</li> <li>• Queried which should document take</li> </ul>		

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		<p>precedence if there is a conflict.</p> <p><u>Setting of charges</u></p> <ul style="list-style-type: none"> <li>• Raised concerns regarding incorporating charges in standard terms, especially the potential abuse of competition issues if pipelines are seen as working collectively to determine a common charge.</li> <li>• It was noted that the AEMC was silent on charges but the group needs to consider these as they will form part of a contract.</li> <li>• Noted that provision had been made in the new information disclosure and arbitration rules to carve out the standard terms if appropriate.</li> </ul>		
8	<b>Governance arrangements for OTA</b>	This discussion was deferred to the next meeting.		
9	<b>Imbalance Trading</b>	<p>Imbalance trading was discussed in the context of the drafting of the relevant provision in the OTA (minuted in Agenda Item 7).</p> <p>Mechanisms to allow imbalance trading will be covered at the next meeting.</p>	GMRG to add mechanisms for imbalance trading to the next meeting agenda.	
10	<b>Project team road map</b>	<p>The team noted the next steps for the standardisation workstream:</p> <ul style="list-style-type: none"> <li>• The team agreed another meeting was required to continue discussing the OTA, cover Governance arrangements, and discuss the consultation arrangements.</li> </ul>		
11	<b>Close</b>	N/A	N/A	N/A
12	<b>Next meetings</b>	The team noted the next meeting, which had been scheduled for 14-15 August in Brisbane had previously been cancelled. Given the short timeframe, and the need for providing time for feedback, the group noted the GMRG would work to find a suitable time and get back to the group with the details of the rescheduled meeting.	GMRG to reschedule the next meeting and circulate the new schedule of meetings and plan.	

