



Gas Market Reform Group

Public Forum:

Standardisation and capacity trading platform reforms

14 September 2017

1. Key elements of the reform package



Key elements of the reform package

Operator of Capacity Trading Platform and Day-Ahead Auction: AEMO

Capacity Trading Platform

Trading platform to form part of GSH Exchange and allow shippers to procure gas and secondary transportation services across pipelines through one platform.

Key outcomes required by the AEMC: The trading platform is to enable shippers to trade secondary capacity prior to nomination cut-off through:

- an exchange that will allow shippers to trade standardised firm pipeline and compression services across pipelines on an anonymous basis
- a listing service – the listing service will allow shippers to trade more bespoke products

Shippers to retain revenue generated from capacity sales.

Day-Ahead Auction

Centralised auction platform that will provide for the release of contracted but un-nominated transportation capacity on designated pipelines through one platform.

Key outcomes required by the AEMC: The auction is to enable shippers to procure contracted but un-nominated transportation capacity on a day-ahead basis after nomination cut-off and is to:

- be conducted shortly after nomination cut-off time
- have a zero reserve price, with compressor fuel provided in kind
- accommodate nominations or renominations after the auction is conducted.

Pipelines to retain the revenue generated through the auction once costs accounted for

Standardisation reforms

Key outcomes required by the AEMC:

- Capacity purchased through the trading exchange and auction to be given effect through an operational transfer. Bare transfers allowed for other secondary sales but seller must offer the buyer the option to use an operational transfer.
- Standardisation of key operational, prudential and other contract provisions in primary, secondary capacity and operational transportation agreements. Where possible and appropriate the standards should apply across the east coast.
- Shippers to be provided greater flexibility to change receipt and delivery points to increase the pool of prospective buyers and sellers of capacity (e.g. by developing zones that cover multiple receipt and delivery points) (preferred outcome).

Reporting

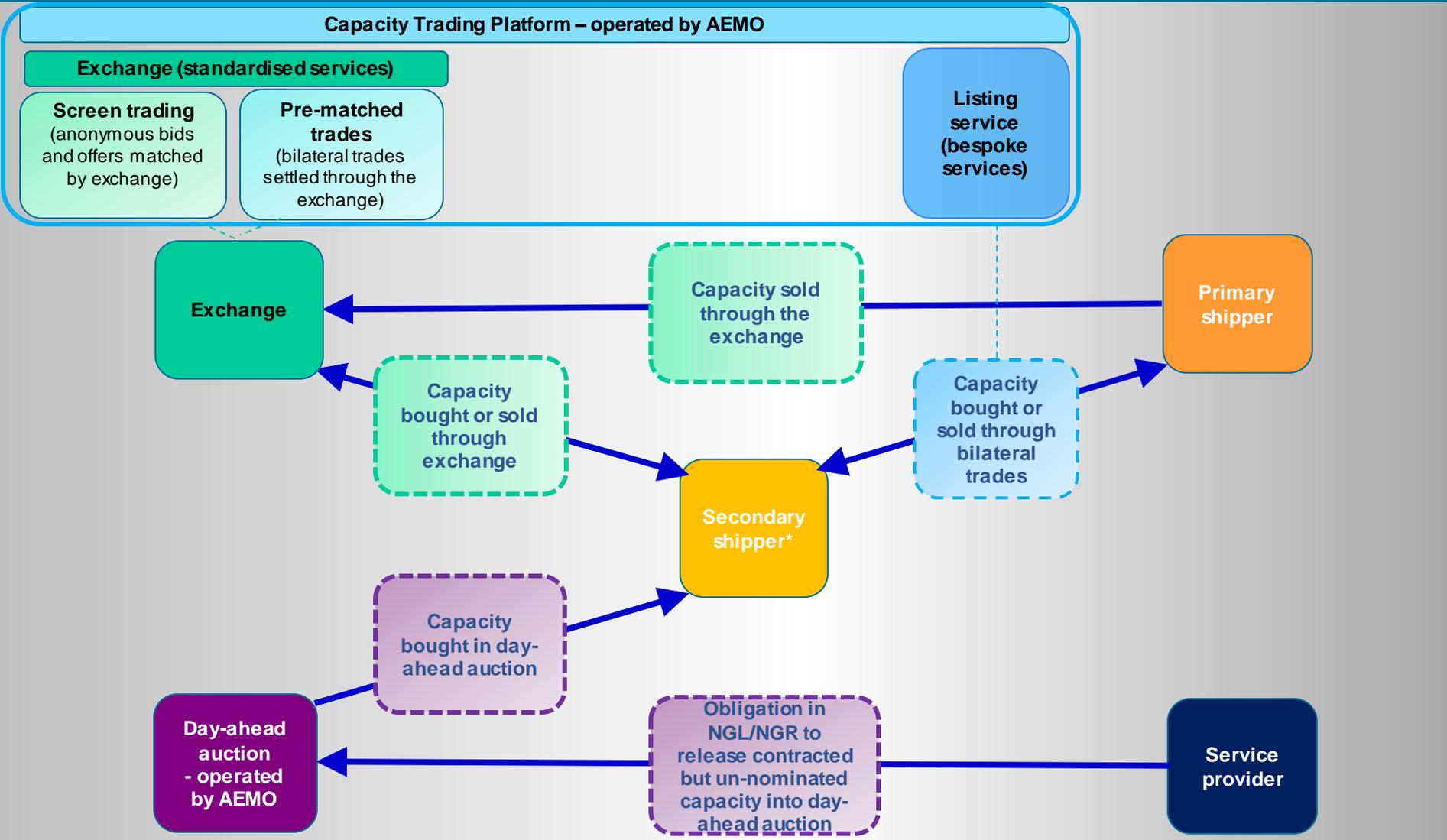
Key outcomes required by the AEMC:

- Publication of information on all secondary trades of transportation capacity shortly after the time the transaction is entered into.





How secondary capacity will be released

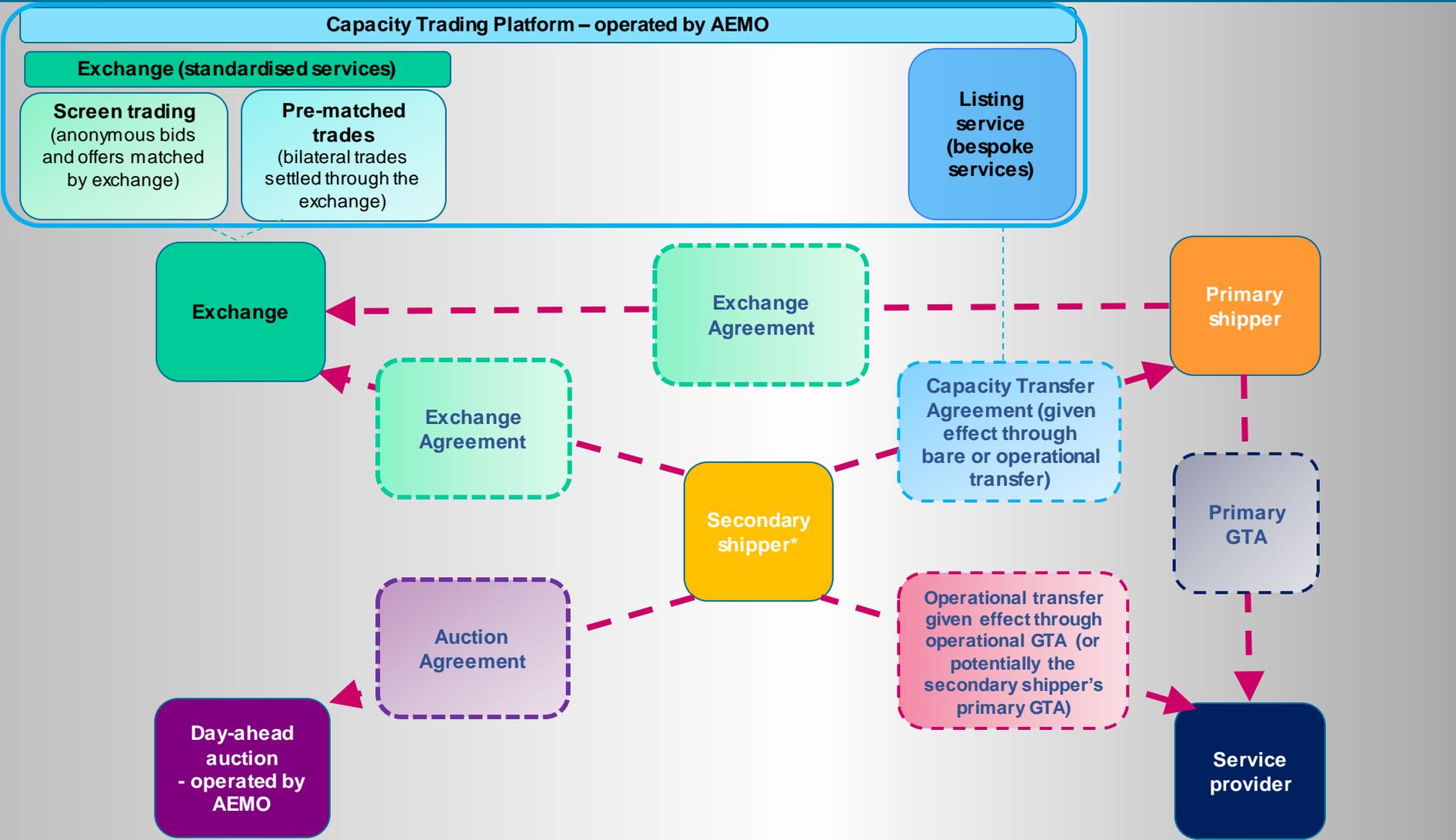


Notes: * A secondary shipper may also be a primary shipper and that trades can occur between secondary shippers.

— Denotes flows of capacity



Contractual arrangements

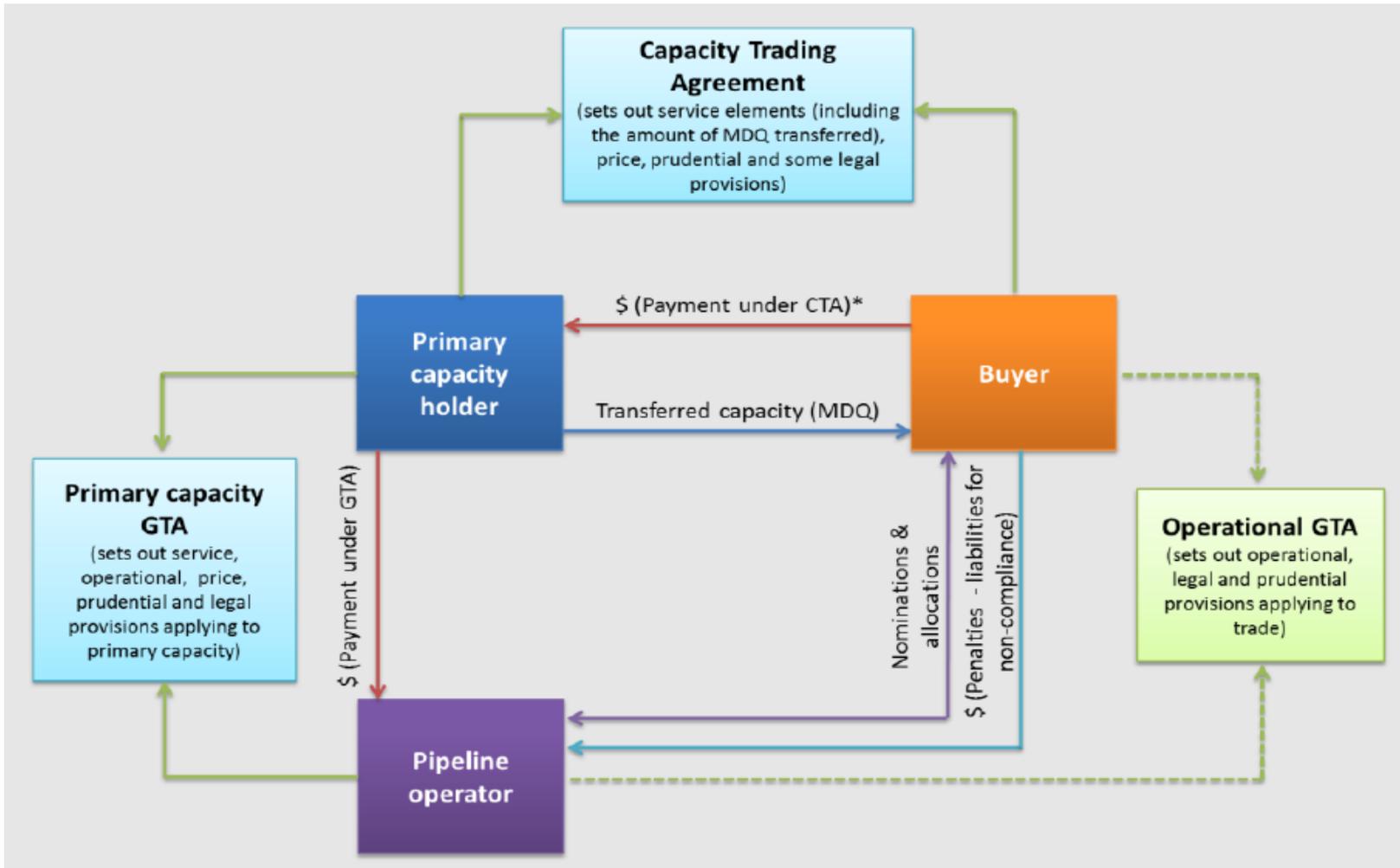


Notes: * A secondary shipper may also be a primary shipper and that trades can occur between secondary shippers.

--- Denotes contractual arrangements



Operational transfers



2. Standardisation work stream



Standardisation: AEMC recommendations

Required outcomes	Preferred outcomes
<p>Trades carried out through capacity trading platform and auction to be given effect through an operational transfer.</p> <p>Bare transfers allowed but seller required to offer buyer the option of an operational transfer.</p>	<p>Shippers provided greater flexibility to change their receipt and delivery points</p>
<p>Standards to be developed are for key operational, prudential and other contractual provisions in primary GTAs, CTAs and operational GTAs, and provisions in contracts used for exchange based trading on the capacity trading platform</p> <p>Standardisation for pipeline and compression services.</p> <p><i>Note that in response to stakeholder feedback, the AEMC noted that it may be appropriate to prioritise the standardisation of operational GTAs and secondary capacity agreements (i.e. CTAs, the Exchange Agreement and Auction Agreement)</i></p>	
<p>Where possible and appropriate standards to apply across the eastern Australian gas market</p>	
<p>Counterparties to existing contracts should not be materially disadvantaged through the standardisation process</p>	



Assessment framework for standardisation

The final design of the reforms will be developed having regard to:

- the National Gas Objective
- the COAG Energy Council's Vision
- the AEMC's required and preferred outcomes for each of the reforms
- the broader objectives of the capacity trading reform package, which are to improve the efficiency with which capacity is allocated and used and foster a liquid secondary market.

The GMRG will also consider the extent to which the proposed reforms:

- provide secondary shippers with access to secondary capacity on reasonable terms;
- appropriately reflect the legitimate business interests of service providers and other parties that have rights to use the transportation services;
- are operationally feasible and recognise the operational and technical requirements necessary for the safe and reliable operation of pipelines and other facilities;
- facilitate the efficient operation and use of the trading platform and auction; and
- promote efficient investment in, and efficient operation and use of, natural gas services.



Contracts to be standardised

Contract type		GMRG's Preliminary View
Auction agreement	Sets out terms of use of the auction and terms governing purchases in auction.	To be developed as part of the auction work stream.
Exchange agreement	Sets out terms of use of the GSH and terms governing purchases through the exchange	To be amended once work on the capacity trading platform work stream completed.
Primary GTAs	Agreement between primary shipper and pipeline operators for sales of primary capacity.	Likely to be little value in standardising primary GTAs if operational transfers become primary means by which trades are conducted, but changes necessary to: <ul style="list-style-type: none"> • accommodate secondary trading and/or facilitate operation of trading platform and/or auction; and • remove other impediments to trade
Capacity Trading Agreements	Agreement between shippers for bilateral sales of secondary capacity.	Likely to be little value in developing a standardised CTA that uses a bare transfer mechanism. Standardised terms will be available for CTAs that use the operational transfer mechanism and trades conducted through the capacity trading platform and day-ahead auction.
Operational GTAs	Agreement between secondary shipper and service provider. Used to give effect to capacity purchased on exchange, auction and bilateral trades using operational transfer.	Priority to be given to developing a standardised operational GTA because all trades conducted through the exchange and auction will need to be given effect through an operational transfer and secondary shippers will need to be offered this option through bilateral trades.



Key elements of the standard operational GTA

The standard operational GTA will consist of:

- **Standard terms** that will apply to all service providers
- **Facility specific terms**, which may differ across service providers or facilities.

Standard terms

1. Services and service standards
2. Nominations and scheduling
3. System use gas
4. Curtailment
5. Maintenance
6. Gas quality
7. Metering provisions
8. Pressure and temperature
9. Imbalances
10. Unauthorised overruns
11. Use of receipt and delivery points
12. Title, risk, responsibility and co-ordination
13. Liability
14. Force Majeure
15. Charges and payment
16. Credit
17. Suspension and termination
18. Dispute resolution
19. Assignment/novation
20. Representation and warranties

Facility specific terms are not practicable to standardise due to differences in operational characteristics and contractual arrangements.

Facility specific terms

1. Other services
2. Scheduling
3. Priority principles
4. System use gas
5. Hourly limitations
6. Pressure and temperature
7. Charges
8. Imbalances
9. Odourisation
10. Metering principles
11. Compression services
12. Receipt and delivery points



Application of the standardised operational GTA

The GMRG's preliminary view is that:

- It should be **mandatory** for service providers to offer the standardised operational GTA.

There will be some limited qualifications to this obligation (e.g. a shipper may need to be a company incorporated in Australia acting as principal).

- Service providers should **not be able to require** negotiation of any terms as a condition of offering the agreement, but service providers and shippers will not be prohibited from agreeing arrangements for operational transfers or other services on terms negotiated between them.

Service providers and shippers will, for example, be able to negotiate to include the operational transfer mechanism in their primary GTA.

- The standard terms should be excluded from Part 23 of the NGR, but if “Other Services” are negotiated as part of this process, the negotiation of these services should be subject to Part 23.
- The trading platform and auction should be designed and operated on the assumption that standard form operational GTAs are used to deliver all trades.

To the extent there are individual requirements arising out of negotiated contracts, it will be for the shipper and service provider to manage.

- If an operational GTA is entered into, the rights and obligations between the parties would be governed by usual **principles of contract law**.



Governance arrangements: Development, publication and amendment of the Code

The governance arrangements for the standardised operational GTA will need to encompass:

1. arrangements for the development, publication and amendment of the standard terms and facility specific requirements, which will be set out in the **Operational GTA Code (Code)**
2. the obligation service providers have to publish and offer a standardised operational GTA.

Development, publication and amendment of the Code

The GMRG's preliminary view is that:

- the Code should be published as a separate instrument and not form part of the NGR
- the initial Code will be made by the SA Minister
- future changes to the Code to be subject to a hybrid governance model, which will require:
 - an **industry representative panel** to be established that would be responsible for considering and recommending changes to the Code;
 - **AEMO** to provide secretariat services to this panel, including running consultation processes and requesting any specific input or analysis from the AEMC; and
 - the panel to recommend to the **AER** that a change be accepted, rejected or accepted in modified form and changes to only take effect if approved by the AER.



Governance arrangements: Obligation to publish and offer a standardised operational GTA

Obligation for service provider to publish and offer a standardised operational GTA

The GMRG's preliminary view is that:

- Changes will need to be made to the NGL and the NGR, to require service providers to:
 - publish a standardised operational GTA on their website incorporating the standard terms and facility specific terms; and
 - enter into a standardised operational GTA on request by a shipper.

These obligations are expected to be civil penalty provisions.

- The AER will be responsible for monitoring the compliance of:
 - service providers with the obligation to publish and offer the standard operational GTA
 - the facility specific terms (including charges) with the facility specific requirements in the Code and any principles in the NGR.

The AER will also have the power to exempt a facility from the regime because, for example, it does not offer third party access.



Other measures to reduce barriers to trade

The consultation paper seeks stakeholders views on a number of other measures that could be used to reduce barriers to trade, including:

- improving access to **allocation agreements** and receipt and delivery points;
- providing shippers with more options to deal with **imbalances**;
- **harmonising** gas day start times and nomination cut-off times across jurisdictions; and
- addressing other **contractual impediments to trade** that stakeholders have noted may be in some primary GTAs, including provisions that:
 - prohibit the primary shipper from trading its capacity, or require it to obtain the service provider's consent before it can trade its capacity;
 - prohibit the primary shipper from requesting a change to their receipt and delivery points, or limit the number of changes a shipper can request; and
 - impose excessive fees on primary shippers that trade capacity and/or change receipt and delivery points.

3. Capacity Trading Platform work stream



AEMC recommendations

Recommended	Preferred
<p>The creation of capacity trading platform(s), that provides for electronic anonymous exchange based trading for commonly traded products and a capacity listing service for other more bespoke products.</p>	<p>A single capacity trading platform operating across the east coast</p>
<p>Trades carried out through the capacity trading platform to be given effect through an operational transfer.</p>	<p>As many services as possible capable of being traded on the platform (e.g. transportation services, hub services and pipeline storage services), recognising the need to avoid unnecessary complexities</p>
	<p>Trades conducted outside the capacity trading platform to be advertised ahead of time on the capacity trading platform listing service.</p>



Objectives

Achieving a **platform of choice**:

- Operated by an independent and experienced provider
- Outcomes are predictable and reliable
- Robust governance framework
- Transparency in costs and market operation
- Low transaction costs and fast trading process
- Shippers can coordinate trades across pipelines and gas services
- Capable of capturing and passing on scale and scope benefits
- Future-proof, scalable and adaptable

Key considerations:

- a) Balance between liquidity and breadth of products offered
- b) Balance between costs and complexity
- c) Stakeholders (buyers, sellers and gas transporters) should have a high level confidence and certainty in the nature of the standardised product offered on the exchange



GMRIG considerations

- Project teams discussions have focused on four main areas

1. Products to be traded and definition

2. Risk Management

3. How will capacity be transferred

4. Platform Architecture and Integration with GSH

- This presentation focuses on the first two areas, while AEMO's covers the latter two



Overview of the capacity trading platform

On 14 July, the Energy Council endorsed the GMRG's recommendation for a single capacity trading platform to be developed and operated by AEMO.

1. The trading platform will form part of the GSH Trading Exchange and consist of:
 - An anonymous exchange that shippers can use to buy or sell standardised firm forward haul, compression and park services prior to nomination cut-off time through either:
 - the screen trading service – bids and offers matched by the exchange; or
 - the pre-matched service – bilateral trades settled through the exchange.
 - A listing service that shippers can use to buy or sell more bespoke products (including locational swaps).
2. The platform will share many of the same operational, market, financial, contractual and governance features of the GSH
3. The platform will allow participants to manage prudential requirements across both commodity and capacity transactions (i.e., netting of positions)
4. The development of the platform will require reliable and timely communication between AEMO and service providers.

Before using the capacity trading platform:

- Primary and secondary shippers will need to enter into the Exchange Agreement with AEMO,.
- An operational GTA with the relevant service providers.



Governance arrangements for the platform

- The capacity trading platform will be established as part of the GSH trading exchange and so will fall under the existing governance framework set out in the NGL, Part 22 of the NGR and the Exchange Agreement.
- The AER will remain responsible for monitoring compliance with the market conduct rules and investigating and enforcing breaches under its general powers.
- The Exchange Agreement will need to be amended to include the capacity products and this can be carried out by AEMO, following a procedure in the agreement.
- The introduction of capacity trading will require AEMO and service providers to exchange information about capacity in accordance with a market timetable. It is proposed that these arrangements would be in new capacity transfer procedures made by AEMO.
- Product list can be amended any time through an established consultation process

Proposed Product List



Screen traded products

Firm forward haul products

Pipeline	Service provider	Receipt Zone	Delivery Zone
RBP	APA	Wallumbilla zone (runs 1, 2, 3, 4 and 7)	Brisbane STTM zone
		Darling Downs (Kogan North, Scotia, Woodroyd, Condamine, Windibri, Argyle)	Wallumbilla (Low Pressure Trade Point (LPTP))
QGP	Jemena	Wallumbilla (HPTP)	Gladstone (Gladstone, Wide Bay, NOR, Qld Alumina, Boyne, Yarwun,)
SWQP	APA	Wallumbilla (HPTP)	Moomba Compression Facility (MCF)
		Moomba (MCF)	Wallumbilla (LPTP)
CGP	APA	Ballera (includes compression service provided by Santos)	Mt Isa (Mt Isa Mine, Diamantina, Mica Creek, Phosphate Hill, Osborne, Cannington)
MSP	APA	Moomba (MSP Inlet)	Sydney STTM (Wilton)
		Moomba (MSP Inlet)	Culcairn (Culcairn South)
		Culcairn (Culcairn North)	Moomba (MCF)
		Culcairn (Culcairn North)	Sydney STTM (Wilton)
EGP	Jemena	Longford	Sydney STTM
MAPS	Epic	Moomba (MAPS IPT)	Adelaide STTM (Metro Mainline)
SEAGas	APA /REST	Brumby	Adelaide STTM
TGP	Tas Gas Pipeline Pty Ltd	Longford (includes TGP transfer service provided by Jemena)	Hobart
DTS Transfer Service	Jemena	Longford zone	Entry point of DTS
NGP	Jemena	Warrego	Mt Isa
ADP	APA	Mereenie and Palm Valley	Darwin City Gate
			Tennant Creek
		Bonaparte	Darwin City Gate Tennant Creek

The Low Pressure Trade Point (LPTP) is a notional point within APA Group's Wallumbilla hub at the low pressure header.

The High Pressure Trade Point (HPTP) is a notional point within APA Group's Wallumbilla hub at the high pressure header.

The Moomba Compression Facility (MCF) is a notional point within APA Group's Moomba hub at the low pressure header.



Screen traded products

Potential compression products

Compressor location	Compressor operator	Compression product
Wallumbilla	APA Group	Wallumbilla LPTP to Wallumbilla HPTP
Moomba	APA Group	MCF to SWQP In-pipe Trade Point (interruptible service)

Potential park products

Pipeline	Pipeline operator
RBP	APA Group
SWQP	APA Group
MSP	APA Group
MAPS	Epic Energy
TGP	Tasmanian Gas Pipeline Pty Ltd
EGP	Jemena



Product list – other issues

- **Contract Size** – minimum size of 500 GJ
- **Tenor options:**
 - Day-ahead product
 - Daily product (available on a 6 day rolling basis)
 - Weekly (available on a 4 week rolling basis)
 - Monthly (available on a 3 month rolling basis)
 - Potentially quarterly (available on 4 quarter rolling basis)
- **Potential Other Services:**
 - Locational Swaps, an imbalance exchange traded product, backhaul
 - Current thinking is not to include in initial product list and to consider further post implementation. Keen to stakeholder feedback on these.

Capacity product definition



Proposed definition for firm forward haul products

- Transportation products on the platform will be for “secondary firm” capacity (the capacity will be primary capacity but with secondary firm rights at receipt and delivery points).
- The products may provide a transportation right to ship gas along a “contract path” between two specified zones on a pipeline.
- The purchaser of capacity on the platform will have the option to select any receipt or delivery point within the specified zone. The pipeline operator will accept such nominations when scheduling if technically feasible to do so.
- The products will be expressed as a MDQ with an MHQ specific to each pipeline
- Trades carried out through the capacity trading platform will be delivered through the transfer of MDQ through an operational GTA.
- The service provider will be subject to a best endeavours obligation to accept any renomination request from the platform capacity holder.



Receipt and delivery point flexibility

In the AEMC's East Coast Review, some stakeholders noted that the ability of primary capacity holders to trade capacity may be limited by restrictions on receipt and delivery point changes.

To overcome these impediments, the AEMC suggested shippers be accorded greater receipt and delivery point flexibility and noted the following measures were likely to best achieve this objective:

- developing zones that cover multiple receipt and delivery points and allowing changes to occur relatively easily within these zones and putting rules in place that define how changes across zones will be dealt with;
- only allowing pipeline operators to reject changes to receipt and delivery points on technical and operational grounds, as opposed to commercial grounds; and
- requiring pipeline operators to respond to a change request within a specified time.



Zonal model

The GMRG's preliminary view is that the zonal model should be used for capacity trades carried out through the exchange and auction. This model will entitle:

- primary shippers to sell their point-to-point capacity on a zone-to-zone basis; and
- secondary shippers to acquire capacity on a zone-to-zone basis and to have **secondary firm rights** at all the receipt and delivery points within each zone.

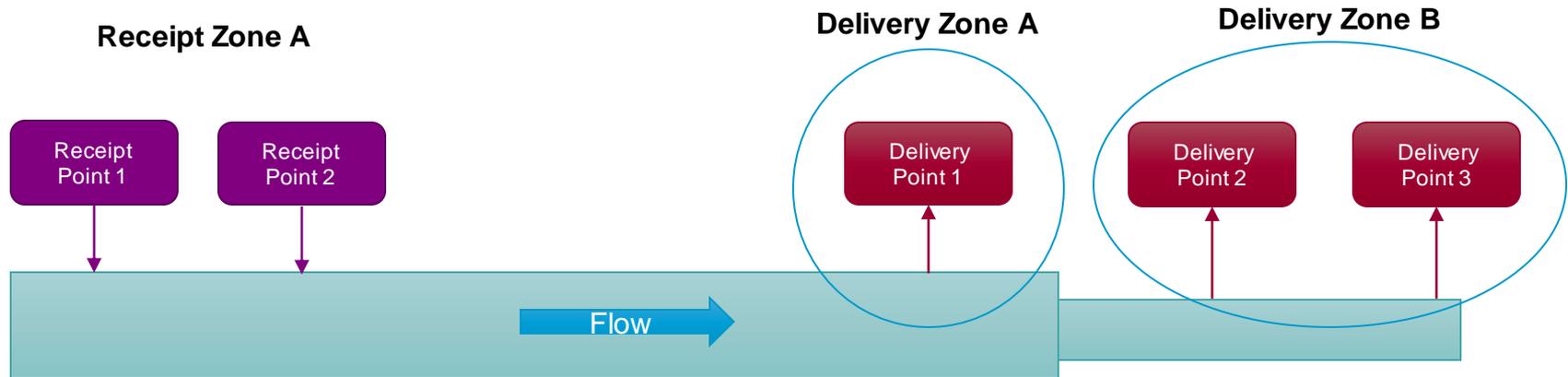
To implement this model the following will need to occur:

- receipt and delivery point zones will need to be developed on each pipeline; and
- the secondary firm rights concept will need to be implemented.



Zonal model

Preliminary work carried out by APA, Epic, Jemena and SEAGas indicates that the establishment of receipt and delivery point zones is technically feasible.



The following types of principles will be required to guide the development of zones

- the bounds of the zones should maximise the pool of prospective buyers and sellers while also:
 - ensuring capacity can be transferred between points within the zone on a one-for-one basis if there is physical capacity at the relevant point; and
 - minimising the risk that secondary shippers will not be able to access capacity at a receipt or delivery point within the zone;
- the bounds of the zones should be capable of coping with future operational changes to the pipeline to minimise changes to the zonal definition over time; and
- the specification of zones should promote the NGO and the Energy Council's Vision and consistent with the objectives of the capacity trading reform package.



Secondary firm rights

Secondary firm rights are required under the zonal model, because:

- the capacity sold by a primary shipper may be released from a different receipt or delivery point in the zone to the point the secondary shipper wants to use; and
- the capacity of individual receipt and delivery points within a zone will usually be lower than the zonal capacity.

To deal with these limitations secondary shippers will be able to use any receipt or delivery points within a zone subject to the following priority schedule:

- primary shippers with firm rights at a receipt or delivery point have the highest priority;
- shippers with secondary firm rights have the second highest priority and are treated equally if there is insufficient capacity at a point; and
- shippers with as available or interruptible rights at a receipt or delivery point have a lower priority than shippers with secondary firm rights.

While the risk in most cases is expected to be relatively low, there is still a possibility that curtailment will be required. The GMRG is therefore proposing that information be included on the Bulletin Board that will allow secondary shippers to understand the nature of this risk and the likelihood that they will be interrupted before purchasing capacity.

Risk Management



Financial and delivery default management

Potential risks	Detail
Primary shipper's GTA terminated while trade on foot	<p>Options to deal with this include:</p> <ol style="list-style-type: none"> Trade cancelled and secondary shipper compensated if in relevant window. Trade continues and service provider receives price struck in the exchange. Trade cancelled but secondary shipper has a right/option to negotiate with service provider for capacity and compensated if in the relevant window. A hybrid of (a), (b) and (c), with the trade kept on foot for a period (e.g. for a day, week or a month to provide for an orderly transition in the market). <p>If there has been a chain of sales, the defaulted capacity will need to be shared between secondary shippers on a pro rata basis.</p>
Secondary shipper's operational GTA terminated while trade is on foot with another secondary shipper	<p>Secondary trade can stay on foot because the primary shipper still has rights to the capacity under its primary GTA.</p>
Shippers default on obligations to the GSH	<p>If buyer or seller defaults its transactions will be netted and closed out by AEMO and the non-defaulting party will be compensated through collateral.</p>
Capacity seller short sells and doesn't rectify before capacity is to be delivered	<p>Options to deal with this</p> <ul style="list-style-type: none"> prevent the risk occurring (i.e. through a pre-trade verification register) or introduce penalties or other disincentives. <p>The latter option is preferred due to the costs and complexities of establishing register</p>

4. Next steps



Key Dates

Standardisation and Capacity trading platform:

- Consultation on design: 7 September 2017 - 4 October 2017.
- Recommendations to COAG Energy Council: 23-24 November 2017.
- Consultation on NGL, NGR and other subordinate instruments: February/March 2018.
- Implementation: 2018/19.

Auction and reporting framework:

- Consultation on design: Expected 9 October 2017 – 6 November 2017.
- Recommendations to COAG Energy Council: mid-December 2017.
- Consultation on NGL, NGR and other subordinate instruments: February/March 2018.
- Implementation: 2018/19 – potentially after the capacity trading platform.