



# Information Paper:

## Capacity Trading Reform Package Design Approval and Implementation

**The Energy Council has approved the recommendations for the capacity trading reform package and the GMRG and AEMO are working jointly to implement it.**

The Gas Market Reform Group (GMRG) was established by the COAG Energy Council (the Energy Council) to lead the design, development and implementation of a range of reforms set out in the *Gas Market Reform Package*, including a package of capacity (pipeline and hub service) trading reforms.

The capacity trading reform package was originally recommended by the Australian Energy Market Commission (AEMC) in its *Eastern Australian Wholesale Gas Market and Pipelines Framework Review (East Coast Review)* and endorsed by the COAG Energy Council (Energy Council) at its August 2016 meeting. This package, which relates to transmission pipeline and compression services (jointly referred to as 'transportation services'), include the development of:

- a capacity trading platform that shippers can use to trade secondary capacity ahead of the nomination cut-off time and provides for exchange based trading of commonly traded products and a listing service for other more bespoke products;
- a day-ahead auction of contracted but un-nominated capacity, which would be conducted shortly after nomination cut-off and subject to a reserve price of zero;
- standards for key contract terms in primary, secondary and operational transportation agreements to make capacity products more fungible; and
- a reporting framework for secondary capacity trades that provides for the publication of the price and other related information on secondary trades.

Further detail on the key elements of this package can be found in Figure 1.

The GMRG commenced work designing elements of the package in February 2017 and made its final recommendations to the Energy Council on:

- (1) who should operate and administer the capacity trading platform and the day-ahead auction in July 2017;
- (2) the design of the capacity trading platform, the standardisation related reforms, the secondary trading reporting framework and the harmonisation of gas day start times and nomination cut-off times in November 2017; and
- (3) the design of the day-ahead auction of contracted but un-nominated capacity in December 2017.

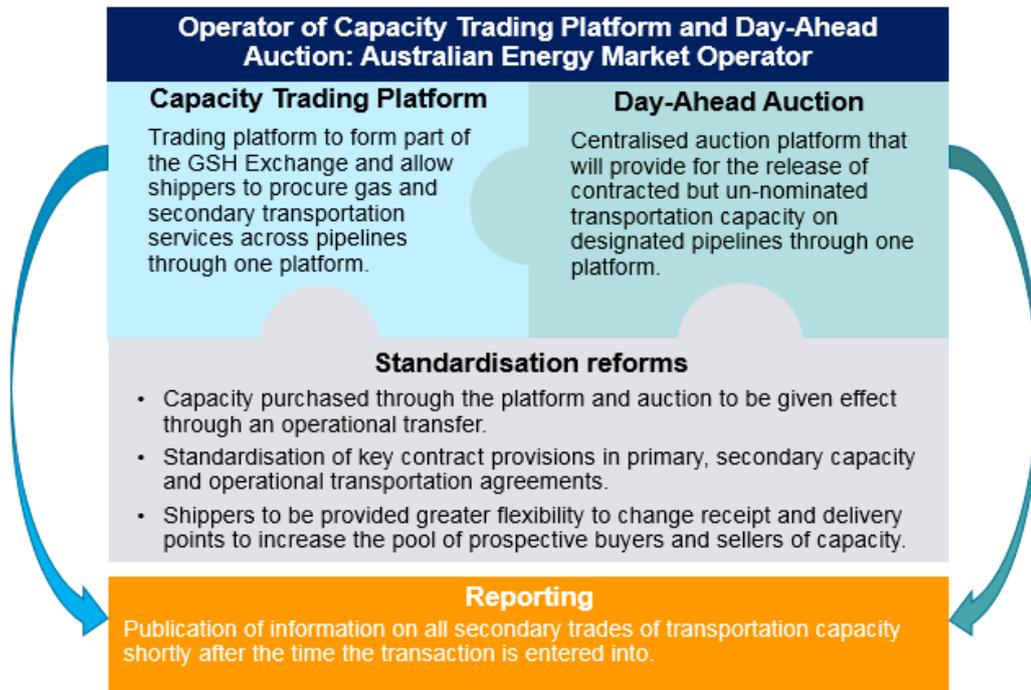
These recommendations were developed following extensive stakeholder consultation, with feedback provided by a range of gas producers, retailers, gas users, pipeline service providers, the Australian Competition and Consumer Commission (ACCC), Australian Energy Market Operator (AEMO), the AEMC and the Australian Energy Regulator (AER).



The design recommendations were also informed by advice from the GMRG's legal advisor, Johnson Winter & Slattery and economic consultant, NERA Economic Consulting.

The GMRG's final recommendations have been endorsed by the Energy Council,<sup>1</sup> and can be found on the GMRG's website.<sup>2</sup>

**Figure 1: Capacity trading reform package**



## Implementation plan

The Energy Council agreed at its 24 November 2017 meeting, that:

- the capacity trading reform package should be implemented by **1 March 2019**; and
- the harmonisation of gas day start times and nomination cut-off times should occur by **1 October 2019**.

The Energy Council also agreed that a review of the application of the package to the Northern Territory should be conducted by the AEMC ahead of implementation of the capacity trading reform package in the east coast gas market. This review will be conducted in the first quarter of 2018, with the recommendations to be provided to the Energy Council in **April 2018**.

Before the capacity trading reform package can be implemented, extensive work is required by the GMRG, AEMO and service providers on the following tasks:

<sup>1</sup> COAG Energy Council, 12<sup>th</sup> Energy Council Meeting Communique, 14 July 2017, COAG Energy Council, 15<sup>th</sup> Energy Council Meeting Communique, 24 November 2017 and COAG Energy Council, out-of-session consideration, 22 December 2017.

<sup>2</sup> See <http://gmrgrg.coagenergycouncil.gov.au/publications>.



- (1) Development of legal, regulatory and contractual architecture. This task will involve:
  - (a) the preparation of drafting instructions for changes to the National Gas Law (NGL) and the development of the changes required to the National Gas Rules (NGR), Regulations and other subordinate instruments which will be made by the South Australian Minister (e.g. the Operational Gas Transportation Agreement (GTA) Code);
  - (b) the development of procedures and other subordinate instruments by AEMO; and
  - (c) the development of standardised operational GTAs by service providers.
- (2) Designing, developing and testing the new systems that will be required for the capacity trading platform and the day-ahead auction and conducting industry trials.
- (3) Developing market guidelines and training material for market participants.

The expected timing of the implementation tasks is outlined in Table 1.1. As this table highlights, the GMRG will be responsible for developing the legal and regulatory architecture set out in (1)(a), while AEMO will be responsible for the work outlined in (1)(b), (2) and (3) and service providers for the work described in (1)(c) and (2).

### Next steps for the GMRG's development of the legal and regulatory architecture

The GMRG has commenced work on developing the legal and regulatory architecture that will underpin the capacity trading reform package, which includes drafting:

- the instructions for changes to the NGL;
- the changes that will be required to the NGR;
- the changes that will be required for the Regulations; and
- the other subordinate instruments that will be made by the South Australian Minister.

Before these draft instruments are released for public consultation, the GMRG intends to carry out workshops with:

- pipeline service providers on the technical issues associated with the specification of contract paths to be used for the capacity trading platform, day-ahead auction and reporting framework, the calculation of auction quantities and the time required for data/ information exchanges (expected timing: **week commencing 29 January 2018**);
- pipeline service providers, producers and storage facility operators on the transitional arrangements that may be required to facilitate the harmonisation of gas day start times and nomination cut-off times (expected timing: **week commencing 29 January 2018**); and
- the Standardisation project team and other interested parties on the Operational GTA Code (expected timing: **week commencing 5 February 2018**).

At this stage, the formal consultation period for the draft package of legal and regulatory architecture is expected to commence in mid-March and be completed by late April 2018. Following the incorporation of stakeholder feedback, the final set of changes to the NGL, NGR and other subordinate instruments will be provided to the Energy Council for its consideration and approval. This is currently expected to occur in mid-2018.

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**Table 1.1: Implementation Plan for Day-Ahead Auction and Capacity Trading Platform**

Implementation tasks	Q4 2017	Q1 2018			Q2 2018			Q3 2018			Q4 2018			Q1 2019			
	Dec	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
<b>Legal and Contractual Architecture</b>																	
<b>GMRG</b>																	
NGL, NGR, Regulations, Operational GTA Code and draft exposures of other subordinate instruments		Drafting			Formal consultation		SCO & Energy Council approval	NGL, NGR and Operational GTA Code made by SA Minister			★						
<b>AEMO</b>																	
AEMO Procedures for Auction and Capacity Trading Platform		Drafting			Formal consultation on existing and new procedures			Procedures made									
<b>GMRG and AEMO</b>																	
Technical development and stakeholder feedback		Informal consultation															
<b>Service Providers</b>																	
Service providers put in place standardised operational GTAs									Operational GTAs								
<b>System Design, Development and Testing</b>																	
<b>AEMO</b>																	
High level system design		Phase 1															
Registration, market integration, interface with service providers					Phase 2												
Auction bid interface and solver							Phase 3										
Settlement and prudential systems, market reports and Bulletin Board changes								Phase 4									
End-to-end testing										Phase 5							
Industry trial												Phase 6					
Technical development and stakeholder feedback					Informal consultation												
<b>Readiness, Market Guidelines and Training</b>																	
<b>AEMO</b>																	
Stakeholder engagement (market readiness matters)									Informal consultation								
Industry guides and training									Drafting		Deliver						
<b>Fully Integrated Market Start</b>																	
Capacity Trading Platform, Day-Ahead Auction and Reporting Framework																	1-Mar-19

★ Please note that the timing associated with when the NGL, NGR, Regulations and Operational GTA are made is conditional upon the passage of an Amendment Bill through South Australian Parliament and its subsequent Proclamation.