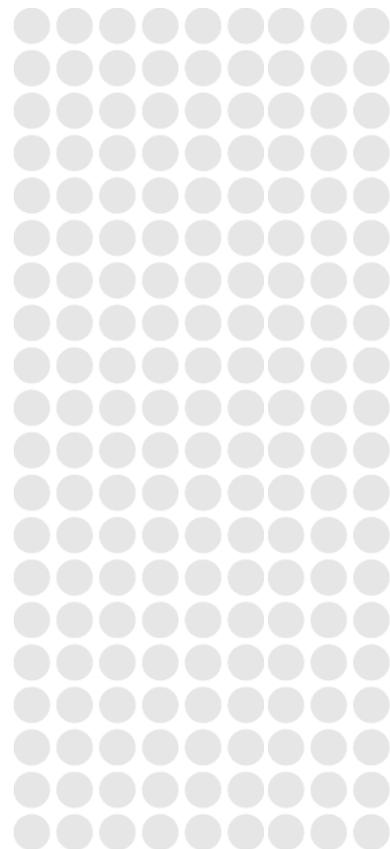




October 2017

# standardisation related reforms and the capacity trading platform

**apa response to consultation paper**



**energy. connected.**

## Introduction

### ***APA supports the development of a strong and vibrant capacity trading market***

APA supports efforts to increase the liquidity of the gas market, in particular in relation to the development of a strong and vibrant secondary trading market. APA, and the pipeline sector more generally, has a history of investing to support the secondary trading market, and wants to see it grow and prosper. A strong secondary trading market for capacity delivers benefits for shippers and pipeliners by increasing confidence in the market, and opportunities for shippers to manage pipeline capacity flexibly. This reinforces the value of primary contracts to the benefit of pipeliners as well.

The design of the secondary trading platform and the contracted but un-nominated capacity auction must be complementary for secondary trading market to develop. The task of the Gas Market Reform Group (GMRG) is not simply to maximise each platform, but to ensure that they are tailored to address the specific policy needs that they are best able to handle.

In APA's view, the contracted but un-nominated capacity auction is best targeted at addressing shipper hoarding of capacity, whereas the secondary trading platform should be designed to encourage increased utilisation of pipeline capacity, supporting the primary market and delivering a competitive alternative to primary capacity sales.

Many of the benefits of a strong secondary market for shippers and pipeliners will be lost if the contracted but un-nominated auction is designed so as to cannibalise capacity that would otherwise be traded by shippers, or contracted directly through the pipeliner.

APA's comments in the remainder of this submission are directed towards ensuring that the standardisation reforms and secondary capacity platform are fit for purpose, delivering benefits to shippers and pipeliners without unnecessary cost and complexity. APA also focuses on key aspects of contracting for pipeline services to ensure that the standardised operational capacity transfer agreement is effective and allocates risk to the parties best able to manage that risk.

The remainder of APA's submission is in the form of responses to the questions posed by the GMRG in the provided template.



## PART A – Standardisation Reforms

	Questions	Feedback
<b>3.2</b>	<b>Contracts to be standardised</b>	
1.	Given the objective of the standardisation reforms is to facilitate more secondary capacity trading and the majority of trade is expected to be conducted using operational transfers, do you think it is sufficient to standardise terms for operational GTAs, or do you think primary GTAs also need to be standardised?	<p>APA supports efforts to increase the liquidity of the gas market, in particular in relation to the development of a strong and vibrant secondary trading market. APA, and the pipeline sector more generally, has a history of investing to support the secondary trading market, and wants to see it grow and prosper. A strong secondary trading market for capacity delivers benefits for shippers and pipeliners by increasing confidence in the market, and opportunities for shippers to manage pipeline capacity flexibly. This reinforces the value of primary contracts to the benefit of pipeliners as well.</p> <p>It is sufficient to standardise terms for operational GTAs as currently proposed. This approach provides for a standard tradeable product, while still providing for bespoke arrangements in primary GTAs to support investment in the primary market. The AEMC reported a strong desire from shippers to maintain scope for bespoke arrangements in primary contracts as part of its review of the East Coast gas market to support a range of end-use requirements.</p> <p>APA has been offering an operational transfer service for a number of years now and has managed to incorporate the necessary amendments in primary GTAs as required.</p> <p>This shows that meaningful standardisation can be achieved in this trading product, while maintaining difference in the underlying primary contract.</p>
2.	Do you think there is any value in carrying out more work to standardise the CTA for bilateral trades that are given effect through a bare transfer? If so, what amendments do you think need to be made to the	APA does not have a view on this.

	contract that AEMO has developed?	
<b>3.3</b>	<b>Standard terms and facility specific terms</b>	
3.	<p>Do you think the standard terms and the proposed scope of the facility specific terms:</p> <ul style="list-style-type: none"> <li>o will achieve the stated objectives of facilitating more secondary capacity trading by making capacity products more fungible and reducing search and transaction costs? If not, please explain why.</li> <li>o are fit for purpose and embody the principles set out in section 2.3? If not, please explain why.</li> </ul>	<p>It is important for the standardisation process to focus on those elements that are relevant to secondary trade, and not seek to force change to other elements for other perceived policy or market reasons. Doing so will undermine faith in the standardisation policy process, slow down decision making, and create unnecessary disagreement between parties. While a number of proposed measures, such as the implementation of the zonal model, are likely to facilitate more secondary trading, many of the terms proposed to be standardised won't contribute to this objective. These include, for example:</p> <ul style="list-style-type: none"> <li>• standardising imbalance allowances and miscellaneous charges (even in the sense proposed in the principles governing facility specific terms);</li> <li>• shifting liability for injecting out of specification gas from producers to pipeline service providers; and</li> <li>• removing service providers' ability to choose its contract counterparties and determine the type and quantum of credit support.</li> </ul> <p>APA believes that most participants in the pool of potential capacity traders will already have a GTA on the applicable pipeline which includes terms in respect of these elements that will vary from shipper to shipper or pipeline to pipeline. APA's current operational capacity transfer product accommodates this variability without issue. Therefore the utility of standardising terms to the extent proposed in the Consultation Paper is questionable.</p> <p><u>Not fit for purpose - recovery of charges for non-capacity charge primary GTAs</u></p> <p>The draft standard terms do not accommodate existing firm primary contracts where capacity is contracted through a combination of capacity and throughput charges.</p> <p>APA has in place a number of contracts for firm services (some of which are reference services and tariffs) where shippers do not pay a 100% take or pay</p>



		<p>capacity reservation charge. Typically these may be structured as:</p> <ul style="list-style-type: none"> <li>• Capacity charge + volume based throughput charge (see for example, current RBP Access Arrangement tariff structure);</li> <li>• Volume based throughput charge only for firm services with minimum spend commitment (across the service and/or across the contract).</li> </ul> <p>The prevalence of these arrangements mean that the assumption that the service provider is fully compensated for any secondary capacity transfer by the primary shipper is not correct.</p> <p>Some examples may serve to illustrate the problem:</p> <p><u>Example 1 (simple firm service agreement on RBP Access Arrangement terms or similar):</u></p> <ul style="list-style-type: none"> <li>• Primary shipper has 10 TJ/d firm service and pays both a capacity charge (for reserved capacity) and throughput charge (on deliveries) under its GTA</li> <li>• Primary shipper trades 2 TJ to secondary shipper</li> <li>• After the trade, both primary shipper and secondary shipper both utilise their entire (adjusted by trade) MDQ</li> <li>• The primary shipper will pay the capacity charge (10 TJ) plus throughput charge on 8 TJ, but not on the 2TJ traded</li> <li>• One of the shippers needs to pay for the 2 TJ of throughput charges delivered on account of the secondary shipper for the service provider to be compensated for the full use of pipeline capacity resulting from the trade.</li> </ul> <p><u>Example 2 (multi-service agreement):</u></p> <ul style="list-style-type: none"> <li>• Primary shipper has 10 TJ/d firm service (plus of range of ancillary services – e.g. compression, park, loan) charged on a variable usage basis and has agreed to pay APA a minimum monthly charge equivalent to, say, 80% x 10 TJ x posted tariff for firm service x days in month. If the primary shipper uses more than the minimum, it will pay for the amount used on a throughput basis.</li> </ul>
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		<ul style="list-style-type: none"> <li>• Primary shipper trades 2 TJ to secondary shipper</li> <li>• After the trade, both primary shipper and secondary shipper both utilise their entire (adjusted by trade) MDQ</li> <li>• On the primary shipper GTA, the primary shipper will be charged 8 TJ/d (equivalent to the minimum bill) , but not on the 2TJ traded</li> <li>• Secondary shipper uses the 2 TJ/d but because there is no throughput charge in the operational MDQ, APA does not get paid for this volume.</li> </ul> <p>APA has addressed this issue in its Capacity Trading GTA by:</p> <ul style="list-style-type: none"> <li>• Assuming 100% utilisation of sold capacity and charging the primary shipper a corresponding throughput charge under its GTA</li> <li>• Knowing that it will be charged by APA based 100% utilisation, the primary shipper sells the capacity to the secondary shipper and prices the product accordingly</li> <li>• APA only charges the secondary shipper the throughput charge on volumes its delivers above the quantity purchased from the primary shipper (ie secondary shipper may have additional capacity beyond what was purchased from primary shipper).</li> <li>• In aggregate 10 TJ/d was used and APA was paid by the primary shipper. This mechanism also preserves the confidentiality of the volume transported by each of the primary and secondary shipper.</li> </ul> <p>To accommodate these tariff structures, the standard operational GTA needs to deem 100% throughput by the primary shipper for any capacity traded on the secondary platform to ensure that the service provider is fully compensated for the use of primary capacity and is not left worse off from a trade of primary capacity. This approach also makes the traded product simpler in terms of tariff – the primary shipper is not offering a combination tariff made up of capacity and throughput elements to make sure they are kept whole.</p> <p>In respect of auction capacity, an alternative approach may be required. The zero-reserve auction assumes the service provider is fully compensated for the firm capacity sold, whereas, in respect of capacity/throughput charges, the</p>
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		<p>auction capacity (bought at zero reserve) can substitute for throughput revenue under a primary contract where a primary shipper participates in the auction and uses that capacity in place of contracted firm capacity. A restriction on primary shippers participating in the auction on a pipeline where they have not fully nominated their firm MDQ may address this problem. APA expects that this issue will be addressed in the Day Ahead Auction Consultation Paper.</p>
<p>4.</p>	<p>Do you think the balance between the standard terms and facility specific terms is appropriate, or do you think:</p> <ul style="list-style-type: none"> <li>o a greater level of standardisation is required? If so, please specify which provisions you think should be standardised.</li> <li>o a lower level of standardisation is required? If so, please specify which provisions you think should not be standardised.</li> </ul>	<p>In addition to comments in response to question 3, the following matters should be left to the pipeline specific terms:</p> <ul style="list-style-type: none"> <li>• nomination cut-off time (currently clause 4.1(a) of the standard terms);</li> <li>• scheduling notification time (currently clause 4.2(a) of the standard terms);</li> <li>• reporting timeline (currently 4.5(a) and 8(f) of the standard terms),</li> </ul> <p>because they vary from pipeline to pipeline due to operational constraints, the need to confirm schedules with interconnect parties, the interaction with other markets (e.g. WGSB and STTMs). The facility specific terms may require that the timeframes are consistent with primary shipper GTAs.</p> <p>For the reasons discussed below under item 14, the nature of the imbalance trading mechanism should also be left to the facility specific terms.</p>
<p>5.</p>	<p>Do you agree with the proposed approach to the <u>secondary shipper's</u> liability for off-specification gas? If not:</p> <ul style="list-style-type: none"> <li>o Do you think there should be limits on the secondary shipper's liability for off-specification gas? If so, what do you think the limits should be?</li> <li>o Do you think the secondary shipper should be liable for the service provider's loss of profits caused by the secondary shipper supplying</li> </ul>	<p>The approach adopted in the operational GTA should ensure that, to the extent feasible to maintain the integrity, safety and security of the pipeline system, primary and secondary shippers are subject to similar terms, including in relation to liability. In particular, a secondary shipper should not face less liability exposure than that applying to the primary shipper. Put simply, protections for the service provider that are in place in primary contracts should not evaporate as a result of a secondary trade.</p> <p>A shipper's liability for injecting off-specification gas should not be limited. This is in line with arrangements in APA's primary GTAs. APA does not have a direct contractual relationship with the interconnect parties supplying the gas (ie producers) and therefore cannot protect itself contractually.</p>

	<p>off-specification gas?</p>	<p>The secondary shipper should be liable for service provider's loss of revenue. APA is not insured for the following losses arising in circumstances where APA is required to take action (e.g. shut in the pipeline) in response to a shipper who injects off-specification gas:</p> <ul style="list-style-type: none"> <li>• loss of revenue and profits;</li> <li>• (absent APA's negligence) claims made by third parties for a failure to deliver gas</li> </ul> <p>This is because these risks are not within APA's control as they relate to another party's behaviour and are able to be managed by that other party.</p> <p>It is appropriate that these uninsured risks sit with the shipper in the form of a contractual indemnity (and some assurance to support that obligation) because:</p> <ul style="list-style-type: none"> <li>• Service providers cannot control the quality of gas injected into the pipeline. As a matter of principle, liability should sit with the party that controls the risk. This is a "least cost" liability approach when considering the whole supply chain. The shipper has control (either directly or indirectly, through its contractual arrangements) in relation to the quality of gas injected into the pipeline.</li> <li>• The shipper has the contractual obligation to provide gas that meets the gas specification as per its GTA – accordingly the shipper needs to provide the requisite assurance.</li> <li>• The shipper has a direct contractual relationship with the interconnect party and may negotiate to pass this risk through (in practice, it may not but at least it has the opportunity).</li> <li>• The purpose of an indemnity is to manage the adverse impacts of an antecedent risk. Limiting the shipper's liability for supplying off-specification gas transfers field risk (the risk in the shipper's business) to the service provider; and it magnifies the transferred risk by exposing the service provider to further claims by third parties (other shippers).</li> <li>• The reluctance of producers to accept this liability (notwithstanding their</li> </ul>
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		<p>control) should not be a reason to pass this risk on to a more remote party that has no ability to manage it through a lack of direct contractual relationship</p> <ul style="list-style-type: none"> <li>• Primary shippers' liability extends to loss of revenue and it is not appropriate for secondary shippers to be afforded preferential treatment in this process. A transfer of capacity should not transfer a lesser obligation.</li> <li>• The injection of off-specification gas is likely to be detrimental to all market participants and therefore a strong incentive should exist for shippers to appropriately manage their obligations. Limiting the shipper's risk for its own breach sends the wrong signal to the market about necessary behaviours.</li> <li>• The (innocent) secondary shipper is also a beneficiary of the liability regime to the extent that it imposes appropriate controls and responsibilities on other (defaulting) shippers. The ability of the service provider to accept gas specification responsibility to the shipper for delivered gas depends, economically, on the service provider's rights of recovery against defaulting shippers.</li> </ul>
6.	<p>Do you agree with the proposed approach to the <u>service provider's</u> liability for off-specification gas? If not:</p> <ul style="list-style-type: none"> <li>○ Do you think the service provider should be liable to other shippers, or should other shippers be required to make a claim against the shipper responsible for delivering off-specification gas into the pipeline?</li> </ul>	<p>Generally, the approach is acceptable provided that the shipper is liable for off-specification gas (as discussed above).</p> <p>Service provider should be liable where it continues to deliver off-specification gas after it could, acting as a reasonable and prudent operator, have avoided delivering such off-specification gas. Once a shipper has injected off-specification gas, there are severe operational limits on a service provider's ability to deal with that situation.</p> <p>These operational issues highlight the importance of the shipper providing appropriate indemnities, as discussed in relation to item 5.</p>
7.	<p>Do you agree with the proposed approach to the <u>secondary shipper's</u> liability for breach of contract?</p>	<p>Proposed clause 17.1 (b) needs to be expanded to clarify that the Shipper is liable for all of Service Provider's liability to the Subshippers, not only liability above the monetary cap. This appears to be consistent with the rationale set out</p>

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	<p>If not:</p> <ul style="list-style-type: none"> <li>o Do you think the uncapped liability will act as a barrier to entry?</li> <li>o Do you think there should be monetary caps, or other forms of limits, on the secondary shipper's liability? If so what should the caps and limits be?</li> </ul>	<p>in the Consultation Paper; it is the wording of the proposed clause which creates the issue.</p> <p>Clause 17.1 (d) is too wide in a number of respects</p> <ul style="list-style-type: none"> <li>• charges payable by the Shipper under the agreement, being revenue to the Service Provider, should be excepted</li> <li>• the clause should not extend to liability under the indemnity in clause 17.1 (b)</li> <li>• the clause should not extend to liability under the indemnity for off-specification gas (10.5)</li> </ul> <p>Otherwise, APA accepts the proposed approach. A different liability regime between service provider and shipper is appropriate because Shippers have material obligations the breach of which may affect other market participants or critical transmission infrastructure. Whether or not differential liability regimes will create a barrier to market entry is speculative, because any possible barrier is indirect at most and could only be assessed over time. In circumstances where the service provider is required to provide services regardless of the identity of the counterparty and without opportunity to negotiate perceived counterparty risk, the position of accepting common law liability, which this draft essentially does (subject to limited-specific indemnities), is not unreasonable.</p>
<p>8.</p>	<p>Do you agree with the proposed approach to the <u>service provider's</u> liability for breach of contract?</p> <ul style="list-style-type: none"> <li>o If so, what level do you think the monetary cap on liability (or other limits) should be set at and do you think the repair or replacement of property should be subject to a different cap?</li> <li>o How do you think the term 'consequential loss' should be defined?</li> </ul>	<p>Service provider's liability should be limited to 10% of the charges paid by the user. Service provider has no ability to limit its liability for losses directly through contract with parties that are most likely to suffer that loss. Users that contract for transportation services are not typically the end user of the transported gas. It is generally the customers of the users that are the end user of the gas. In the event of a delivery failure, end users are more likely to suffer loss than the pipeline user per se. Those end users may bring claims against the pipeline service provider in common law (negligence) which exposes the pipeline service provider to potentially catastrophic losses in circumstances where its rate of return on the pipeline is not at all commensurate with the risk exposure. Given the pipeline service provider cannot contract directly with any end user that is not also a shipper so as to limit its liability, the indemnity regime in the proposed terms and</p>



		<p>conditions effectively incentivises the pipeline user to limit liability for delivery failures in its contracts with end users.</p> <p>For the above reasons, the AER has previously determined that a 10% monetary cap on the service provider’s liability is reasonable (see for example the Access Arrangement for the RBP and the AGP).</p> <p>Going down the path proposed by the GMRG would lead to a change to underlying contracting practices for purposes that are not related to capacity trading. As noted above, we consider that it is important for the standardisation process to focus on those elements that are relevant to secondary trade, and not seek to force change to other elements. Doing so will slow down decision making, and create unnecessary disagreement between parties.</p> <p>In this regard, it is unclear why the GMRG does not accept the AER’s assessment on the appropriateness of a 10% liability cap applying to primary contracts on many regulated pipelines.</p> <p>APA agrees with the proposed definition “Consequential Loss”.</p>
<p>9.</p>	<p>Is it appropriate to have differing liability regimes for the service provider and secondary shipper?</p>	<p>Yes, because:</p> <ul style="list-style-type: none"> <li>• As a matter of principle, liability should sit with the party that controls the risk. This is a “least cost” liability approach when considering the whole supply chain. The terms and conditions should reflect the pipeline’s position in the gas supply chain as the middle player between gas production and downstream users. The pipeline has limited, if any, control over gas injections and withdrawals</li> <li>• a gas transportation agreement can be differentiated from other commercial arrangements because the user’s obligations extend beyond the payment of charges to extensive technical obligations</li> <li>• See also comments under item 7 above</li> </ul> <p>Again, differing liability regimes between shipper and service provider have previously been approved by the AER as reasonable (see for example the Access Arrangement for the RBP and the AGP).</p>

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<p>10.</p>	<p>Do you agree that if a shipper has a credit rating of BBB- and above it should not be required to provide credit support? If not, please explain why.</p>	<p>In respect of regulated pipelines, the AER has (on a number of occasions) approved terms and conditions for regulated reference services where the level of credit support is largely at the discretion of the service provider. While the operational GTA Code may provide guidance as to appropriate credit support, APA considers that the level of credit support required by the service provider should ultimately be determined by the service provider.</p> <p>In setting credit support requirements for primary shippers, the service provider has an interest in ensuring that credit support requirements manage risks appropriately, while not being so onerous as to limit capacity contracting. These incentives can be 'transferred' to secondary shippers by a requirement that service provider credit support arrangements must be commensurate with those applying to primary shippers and the scope of risk imposed by the secondary shipper to the service provider. As an example, APA does not typically require credit support for shippers with a rating of BBB- or equivalent in the primary market.</p> <p>Ensuring that the service provider can require adequate credit support from a secondary shipper is particularly important as there is an intention to require that the service provider contract with any shipper on the terms of the operational GTA. It therefore is appropriate to leave open the possibility that credit support may be appropriate for some shippers regardless of their credit rating. For example, a credit rating of a counterparty might lag the actual deterioration of its credit rating as a 'trading' counterparty.</p>
<p>11.</p>	<p>Do you think the amount of credit support should be a function of the value of the MDQ as outlined in section 3.3.3?</p> <ul style="list-style-type: none"> <li>o If not, please explain why and set out what other option you think should be used to determine the level of credit support.</li> <li>o If so, do you think the level of credit support should be based on 100% of the value of the MDQ or a lower percentage given that the</li> </ul>	<p>As noted above, APA does not consider that the service provider should be bound to certain credit support limits, beyond a requirement to act reasonably, and in line with arrangements prevailing for primary shippers on the same pipeline. APA notes that set limits have not been imposed in respect of regulated pipelines for primary contracts, so it is unclear why they are necessary here.</p> <p>It is not appropriate to be more prescriptive because different parties' bankers are likely to adopt a slightly different standard. In our experience, the form of bank guarantees often varies slightly and this is not a controversial matter.</p> <p>Notwithstanding this position, if the GMRG proceeds with setting limits to possible</p>

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	<p>secondary shipper won't actually be paying the service provider for the capacity? If you think a lower percentage should be applied, please state what percentage should be applied and why you think it is appropriate.</p>	<p>credit support, APA believes that the GMRG's structure for determining the level of credit support is appropriate, however the term needs to be adjusted to 90 days as follows:</p> <p style="text-align: center;">[quantum of traded capacity in GJ] * 90 days * [standing tariff on a per GJ basis]</p> <p>This matches the term for credit support provided to APA by most shippers in the primary market. This approach also has the advantage of scaling to the scope of risk associated with the amount of traded capacity.</p> <p>APA acknowledges that the failure to pay risk is limited because the capacity reservation charges will be paid by the primary shipper, however (as noted in section 3.3.3) a shipper's ability to meet its contractual obligations is a legitimate concern for the service provider and other shippers. Legal liability is a consideration in determining credit requirements for primary shippers and it is not appropriate that secondary shippers are afforded preferential treatment in this regard. Service providers are legitimately concerned that all Shippers meet operational obligations to ensure integrity and safety of the pipeline and for market efficiency, which benefits all shippers. Undercapitalized shippers pose a real potential risk, particularly if they are permitted to participate without assuming responsibility for the consequences of their actions. The suggested levels of credit support represent a reasonable contribution to managing a material risk that is linked to the secondary shipper's usage of the pipeline.</p> <p>Failure to provide and maintain the required level of credit support should be included in clause 22.1 (a) (i) of the standard terms as a specific reason for service provider to suspend the services.</p>
<p>12.</p>	<p>Is the proposed approach to curtailment timeframes appropriate? Does the regime appropriately balance the interests of shippers and the need to preserve pipeline integrity and ensure that shippers have sufficient time to react to a curtailment?</p>	<p>The timeframes are appropriate. APA notes that, in practice, where a curtailment notice is issued in respect of unexpected operational matters, it is likely to be issued after the curtailment has already begun to take effect (ie the service is curtailed and then a notice is sent advising of this fact). This is because where curtailment is required it is usually because of safety issues that arise that do not allow for delay.</p>

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<p>13.</p>	<p>Are the standard terms a suitable foundation for the provision of a stand-alone compression service or will such a service require a more tailored set of terms? What specific provisions do stakeholders consider are required for a workable stand-alone compression service?</p>	<p>With suitable modifications and the ability to include a range of terms in the Facility Specific Terms, the standard terms can be used for stand-alone compression services where many of the generic terms are common.</p> <p>The following are examples of specific provisions that will need to be included:</p> <ul style="list-style-type: none"> <li>• Pressure service receipt point (and minimum applicable pressure) and pressure service delivery point (and delivery pressure)</li> <li>• Adjustment of pressure service MDQ due to varying suction pressure</li> <li>• Level of permitted interruptions, or redundancy (typically greater tolerance than pipeline transportation)</li> <li>• Fuel gas requirements</li> </ul> <p>Further work is required to develop an appropriate mix of standard and facility specific terms to apply to compression services.</p>
<p>14.</p>	<p>Do you agree with the way in which imbalance trading and in-pipe trade services have been dealt with in the operational GTA? Or do you think:</p> <ul style="list-style-type: none"> <li>○ the service provider should have the option of offering either (1) imbalance trading or (2) in-pipe trading?</li> <li>○ the standard terms should make in-pipe trading the standard position rather than imbalance trades?</li> </ul> <p>If you think in-pipe trading should be reflected in the standard terms, what changes would need to be made to the standard terms.</p>	<p>An in-pipe trade service and an imbalance transfer should not be considered as alternatives. The former is a mechanism by which to achieve the latter.</p> <p>The current drafting of the standard terms does not prescribe enough detail for what is typically a transfer of title to commodity. As an alternative to seeking to specify these terms in the standard GTA, APA suggests that the standard terms require the service provider to provide a service which facilitates the transfer of an accumulated imbalance. The details of the exact service to be offered, including a reasonable administrative fee for providing the service, can be left to the facility specific terms.</p> <p>Facility specific terms will need to cover nominations, allocations, service provider's right not to perform the service due to an unauthorised imbalance, etc. Including these in the standard terms will create unnecessary complexity and a new area to seek to standardise without a clear and direct benefit for secondary trading. Arrangements for imbalance trades will need to be consistent across all shippers on each pipeline in order to provide the ability for secondary shippers to adequately trade imbalances with primary shippers. These elements suggest that using pipeline specific terms are more appropriate than</p>



		standardised terms to deliver effective pipeline based imbalance trading facilities.
15.	Do you think the maintenance provisions are appropriate, or do you think the maintenance information that service providers are required to publish on the BB as part of the medium-term capacity outlook is sufficient?	APA believes that the BB maintenance obligations are sufficient. Any different regime will invite confusion and inconsistency which is not conducive to promoting a liquid trading market.
<b>3.4</b>	<b>Application of the standardised operational GTA</b>	
16.	What if any exceptions or qualifications should apply to the obligation for service providers that provide third party access to offer the standardised operational GTA?	<p>As noted in section 3.3.3 of the Consultation Paper, the presence of shippers who do not have the technical or financial capability to back their contractual obligations poses a risk to the legitimate interests of the service provider, other shippers and the market generally.</p> <p>If the service provider is not free to determine credit support after an assessment of the proposed shipper's ability to meet its potential contractual liabilities, then the service provider should be able to refuse to enter into a contract with such a party. Mandating that a service provider must contract with such a party is not appropriate.</p> <p>An example in relation to gas specification serves to illustrate. If the shipper injected out of specification gas into the pipeline, then on the current drafting of the operational GTA, that shipper (assuming APA acts as a reasonable and prudent operator) is required to indemnify APA for all losses. In this scenario, APA is reliant on the shipper's ability to satisfy its liability under that indemnity because APA <b>does not</b> have insurance cover for:</p> <ul style="list-style-type: none"> <li>• legal liability for failure to supply to other users (e.g. because the pipeline needs to be shut-in), in the absence of APA's negligence;</li> <li>• loss of revenue under other transportation agreements.</li> </ul> <p>The proposed quantum of credit support is likely to be wholly inadequate. Such a scenario is not in the best interests of the market participants.</p>

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		<p>APA proposes that:</p> <ul style="list-style-type: none"> <li>• service providers, acting as a reasonable and prudent operator, should be required to maintain a policy describing the criteria a proposed shipper is required to meet in order to be considered technically and financially capable:</li> <li>• if a proposed shipper does not meet the criteria set out in the policy, service provider may refuse to enter into the operational GTA with that party. Service provider should inform the proposed shipper why they do not meet the criteria and the proposed shipper should be afforded an opportunity to respond with additional information</li> <li>• the proposed shipper may have recourse to the AER if it believes it has been unfairly discriminated against</li> </ul> <p>In addition, because of the limits placed on service provider's ability to choose its contract counterparties, service provider will need more rights in relation to suspending / terminating a contract where the counterparty proves unable to meet its technical or financial obligations. APA has detailed suggestions and rationale below in relation to clause 22 of the standard terms (below question 31, about general comments on the standardised terms).</p>
17.	Do you think the secondary shipper and service provider should be able to negotiate terms for operational transfers that are different to those in the standardised operational GTA, or do you think the terms should be compulsory for all operational transfers?	Secondary shippers and service providers should be able to negotiate different terms if they wish. Some shippers are likely to require more flexible arrangements (including additional services, bundling with primary capacity, etc.).
18.	Do you think the secondary shipper should have the option to request the inclusion of any secondary capacity in its primary GTA, or do you have concerns with this option (e.g. do you think it will affect the nature of the product being sold)? If	This is probably feasible, depending on the characteristics of the secondary capacity. This should not be expressly prohibited, and therefore left to the secondary shipper and the service provider to negotiate.

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	you think the option is reasonable, do you think it should be left to the service provider to decide whether to approve such a request?	
<b>3.5</b>	<b>Governance of Operational GTA Code</b>	
19.	Do you agree with GMRG's preliminary view on the governance model? If not, what model do you think should be used and why?	<p>APA considers that the governance arrangements need to be fit for purpose, taking account the fact that any future changes to market design and contractual arrangements could have significant impact on the efficacy of the market and the rights of individuals. It is important that market participants are centrally involved in these processes and effectively lead market development, rather than have this development led by market institutions or regulators.</p> <p>To provide this market led development model, APA supports governance models that involve direct industry input and representation in the development of any new rules or changes to existing rules.</p> <p>Further, existing contractual arrangements must be supported in any change process – it is not acceptable for changes to market arrangements to unilaterally change existing contractual arrangements as this creates uncertainty and risk for participants.</p>
20.	What principles do you think should be included in the NGR to guide any future amendments to the Operational GTA Code?	<p>APA does not support the proliferation of sub-objectives in the rules applying to particular market mechanism or regulatory interventions.</p> <p>A key shortcoming of the former National Gas Code, and a reason for its review and wholesale replacement with the NGL and NGR, was the large number of objectives, some inconsistent with each other, governing regulatory decisions. These many and varied objectives created uncertainty for service providers and users.</p> <p>APA is of the view that the reforms being implemented by the GMRG, including the new Part 23, risk replicating these shortcomings, and appear to be trying to reinstate old objectives that appeared in the National Gas Code into the National Gas Rules, in addition to the existing overarching NGO. This will not assist</p>



		<p>clarity and certainty in decision making and APA does not support this approach.</p> <p>It is unclear what 'principles' the GMRG are proposing when it suggests that the NGR principles for development of the capacity trading platform and day ahead auction should include 'the objectives of the capacity trading reforms'. If these refer to the drivers for change identified by the AEMC in its stage 2 report, then these were not drafted with the intent that they become legislative principles and do not provide effective and clear guidance for decision-making. In addition, the scope of proposed market interventions have changed significantly since those drivers were conceived (for example by the development of the new Part 23 of the Rules), such that elements may not be relevant to the reform now under consideration.</p> <p>APA considers that objectives like the efficient operation and use of the pipeline, efficient investment, operational safety, feasibility and reliability are all embedded in the National Gas Objective. Efficient use of the pipeline also includes appropriate terms of access, including to secondary capacity.</p> <p>It is not appropriate to direct decision makers to consider the efficient operation and use of the capacity trading platform or day-ahead auction in particular – the NGO will be best served by considering these markets in the context of other elements of the gas supply chain, as well as the primary capacity market. Considering these markets in isolation is unlikely to deliver outcomes that are in the long term interests of consumers.</p>
21.	Do you think the AEMC should have a formal role in the change process, for example, to provide advice to the panel and/or the AER on the effect the proposed change may have on the broader market or gas market development more generally?	<p>As noted above, APA considers that market participants need to be centrally involved in any change process and to effectively lead market development, rather than have this development led by market institutions or regulators.</p> <p>To provide this market led development model, APA supports governance models that involve direct industry input and representation in the development of any new rules or changes to existing rules.</p>
22.	Do you agree with the way in which changes to the Operational GTA Code and the facility specific	<p>It is not appropriate that changes to the standard terms and facility specific terms (required due to changed requirements for facility specific terms in the Operational GTA Code) apply to contracts already signed. This is not consistent</p>

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	terms would take effect? If not, please explain why.	<p>with the intent to allow service providers and shippers to contract on different terms if they agree. Where changes to market design make changes to existing contracts necessary or appropriate, the parties to the contract will be sufficiently incentivised to vary existing agreements bilaterally.</p> <p>Forcing changes through contracts undermines contractual certainty and is at odds with key elements of the National Gas Law that maintain the right to contract on terms as agreed between the parties.</p>
<b>3.5.2</b>	<b>Service provider obligations</b>	
23.	Do you agree that the obligation of service providers to publish and offer to enter into the standardised operational GTA should be classified as civil penalty provisions?	It is unclear what the GMRG is seeking to achieve by making this provision a civil penalty provision. Pipeline operators have, independent of government, developed the operational capacity trading product which is the basis of the proposed market structure.
24.	Do you think exemptions from the obligation to publish and offer to enter into the standardised operational GTA should be available if the asset in question is not providing third party access? If not, please explain why. Are there any other exemptions that you think should be available to service providers?	<p>Exemptions in line with those offered under Part 23 of the NGR may be appropriate.</p> <p>The system investment required to provide the operational capacity trading facility for a pipeline can be costly. It is unclear what benefit development of such a facility will deliver on single shipper pipelines and connection assets where no request for a capacity trading facility has been made. APA considers that exemptions from undertaking systems development to provide operational capacity transfer should be available for single shipper pipelines where no other party has expressed an interest in gaining capacity. Service providers should be obliged to provide the operational transfer facility within a certain time of a shipper expressing an interest on a particular pipeline (say, 3 months).</p>
25.	Do you think the AER should be able to monitor the compliance of a service provider's facility specific terms with the requirements in the Operational GTA Code and the principles in the NGR (for example, the imbalance provisions or the charges)? If not,	APA agrees that the AER would be the most appropriate oversight body in respect of compliance with NGR requirements.



	please explain why.	
<b>3.5.3</b>	<b>Principles governing facility specific principles</b>	
26.	<p>Do you agree with the proposed principles for the facility specific terms, or do you think some modifications to these principles are required?</p> <ul style="list-style-type: none"> <li>o Do you think AAs are an appropriate reference point for determining whether facility specific terms are reasonable, or do you think previous AA decisions may have resulted in terms that are not reasonable? In answering this question please provide examples of terms that have been approved by a regulator that you do not consider reasonable.</li> <li>o To what extent do you think the terms in primary GTAs are an appropriate reference point for determining whether the facility specific terms are reasonable?</li> <li>o To what extent do you think the terms in existing secondary shipper gas transportation agreements (whether in an operational GTA or incorporated in a primary GTA) are an appropriate reference point for determining whether the facility specific terms are reasonable?</li> </ul>	<p>APA agrees that AAs can be an appropriate reference point. We note that in the draft facility specific terms, the reference point is either a full access arrangement OR (if the pipeline is not fully regulated) primary shipper GTAs. This should be expanded to provide scope for consistency with the terms of an AA for the pipeline or an AA for another transmission pipeline equivalent in nature to the pipeline (see section 3.5.3 of the Consultation Paper).</p> <p>Primary shipper GTAs are generally an appropriate reference point for reasonableness. APA does not support a carve out for foundation shipper contracts – the reference to industry practice should be sufficient to direct decision making towards modern contracting standards. Bearing in mind the AEMC’s required outcome that counterparties to existing contracts should not be materially disadvantaged through the standardisation process; the facility specific terms should not treat secondary shippers preferentially, regardless of the vintage of the primary contract.</p> <p>APA also notes that existing secondary shipper GTAs are materially consistent with existing primary shipper GTAs, so our comment above applies equally.</p>
<b>3.5.4</b>	<b>Capacity transfer procedures</b>	
27.	Do you think AEMO should have the power to make capacity transfer procedures? If not, please	Yes, AEMO is the appropriate party.

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	explain why.	
28.	Is any guidance required in the NGR on the matters AEMO should consider when developing these procedures?	<p>The NGR needs to define the type of information to be transferred but the details including technical parameters, timing, etc should be left to AEMO to develop in the procedures (after further detailed consultation).</p> <p>APA also considers that procedures should also take into account compliance costs incurred by the service provider, not just those incurred by market participants.</p>
<b>3.6</b>	<b>Cost recovery</b>	
29.	<p>Do you agree that service providers should be able to recover the incremental establishment and capacity trading costs from shippers?</p> <ul style="list-style-type: none"> <li>o If not, please explain why.</li> <li>o If so, do you think: <ul style="list-style-type: none"> <li>- the costs should be recovered from secondary shippers and primary shippers that sell their capacity, or do you think they should only be recovered from: <ul style="list-style-type: none"> <li>(i) secondary shippers?</li> <li>(ii) primary shippers?</li> <li>(iii) secondary shippers and all primary shippers?</li> </ul> </li> <li>- the costs should be recovered using a combination of a monthly administrative fee and a per trade (or per GJ) fee, or another mechanism?</li> </ul> </li> </ul>	<p>APA notes that the Consultation Paper is seeking comment on the recovery of costs associated with the contracted but unutilised capacity auction in addition to the capacity trading platform. As the subject of this consultation is not explicitly related to the auction mechanism, APA is concerned that this discussion will not receive adequate attention by stakeholders. It is important that cost recovery for the auction be subject to separate consultation processes.</p> <p>APA is concerned that the description of costs intended to be recoverable by service providers are highly restrictive, and may not include costs incurred by APA in developing the operational capacity transfer service, and executing the very costly system changes necessary to offer the service. APA currently charges a capacity trading fee to recover these costs which it incurred on a commercial basis in an effort to develop the secondary market and to provide a new service sought by shippers. APA developed the capacity trading service on the expectation that it would be able to ultimately recover its development costs through its fees.</p> <p>On reviewing the proposed scope of service provider recoverable costs set out by the GMRG, it would not appear that these costs would be included in the described 'establishment costs', because these costs are limited to setting up a new GTA in a service provider's system.</p> <p>Excluding the recovery by APA of its service development and system costs for the capacity trading service would penalise APA as the market innovator and</p>



		<p>first mover in developing this product. The effectiveness and value of the capacity trading product is demonstrated by the GMRG's desire to adopt it for all capacity transfers, yet APA would be effectively penalised for its work in developing this product. This is not acceptable.</p> <p>The definition of establishment costs must be expanded to include product development and system change costs associated with providing the operational capacity transfer facility, regardless of when these were incurred. To do otherwise would restrict APA's ability to recover legitimately incurred costs through a capacity trading charge, and benefit other pipeline service providers that have not made any such investment.</p> <p>In respect of auction-related costs, pipeline operators have previously advised the GMRG that the costs of implementing the auction facility within their systems will be high, and in particular are materially higher due to the decision that AEMO will run a centralised auction. In assessing the likely auction costs, pipeline operators assumed that existing BB and STTM communications systems will be used – it is not correct to assert, as the GMRG has done, that service provider costs will be 'relatively low' through the use of these systems. In fact, this assertion directly contravenes repeated advice given to the GMRG by pipeline members of the day-ahead auction working group that these costs will be significant. The costs arise in the derivation and validation of data to a very high level of accuracy within a very tight time window.</p> <p>Material costs also arise in developing algorithms for calculating auction capacity, as well as changing scheduling algorithms, as appears intended in the auction designs currently under consideration.</p> <p>The discussion of cost recovery by service providers, including the definition of recoverable costs, appears designed to limit service provider cost recovery such that service providers bear the majority of costs for market development that benefits market participants. Service providers must be able to recover system and data transfer costs associated with the auction and the platform.</p> <p>Product and system development costs, in addition to the establishment costs described in the Consultation Paper, are appropriately recovered by service providers through a charge on shippers.</p>
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		<p>APA believes that costs should be recovered through a monthly administrative fee. This approach reduces the forecasting risks faced by service providers in recovering capacity trading system and administrative costs that would be associated with a volume based (per GJ) fee, as well as limit the regulatory oversight needed as to the allocation of costs between the monthly and per GJ fee.</p> <p>The fixed monthly administration fee should be paid by all shippers in respect of each pipeline where they hold a contract where the operational trading facility is in place.</p>
30.	<p>Do you think the costs that service providers seek to recover from shippers should be subject to the same pricing principle that applies under Part 23 of the NGR, or do you think a more stringent pricing principle should be applied (e.g. the prudent service provider acting efficiently test in Part 9 of the NGR)?</p>	<p>The GMRG is seeking to impose a regulatory approval process on costs incurred for unregulated assets. Service providers are incentivised to minimise their capacity trading system and administrative costs as they do not have certainty that they will be able to recover those costs over the level of trading that will ultimately occur. Because of this, APA does not consider that the AER's oversight of these costs (and their reflection in charges) should extend to prudence or efficiency considerations. AER oversight should be limited to whether costs recovered through capacity trading charges are:</p> <ul style="list-style-type: none"> <li>• incurred by the service provider</li> <li>• incremental costs made necessary to support the capacity trading market and comply with the NGR.</li> </ul> <p>If the expenditure satisfies these criteria, then it ought to be recoverable through a capacity trading charge.</p>
31.	<p>Do you think the AER should be able to review the costs that service providers seek to recover?</p> <ul style="list-style-type: none"> <li>○ If not, please explain why.</li> <li>○ If so, do you think the proposal that the AER could initiate its own review if it was concerned about the level of charges (or if another interested party raised concerns)</li> </ul>	<p>Yes, the AER should be able to review upon receiving a bona fide complaint from a shipper in the same way it can review a service provider's compliance with other facility specific principles.</p> <p>That review should consider that principles listed in response to question 30.</p>

	<p>would work, or do you think another approach would be more effective?</p>	
<p><b>Standardised Operational GTA</b></p>		
	<p>Do you have any other feedback on the contract terms?</p>	<p><u>Clause 4.4 (Receipt and Delivery Obligations):</u></p> <ul style="list-style-type: none"> <li>• Paragraph (b) should be replicated to provide a similar excusal from liability for the obligation in paragraph (a)(ii). That is, service provider should not be liable for failure to deliver when the downstream interconnect party prevents service provider from delivering a scheduled volume (e.g. interconnecting pipeline operating above required pressure range).</li> </ul> <p><u>Clause 7.4 (Priority of Curtailments):</u></p> <ul style="list-style-type: none"> <li>• If, as a result of a primary shipper renomination, there is insufficient capacity available at a receipt or delivery point then, in accordance with clause 14.2, that capacity will be allocated to the primary shipper.</li> <li>• The clause needs to be clarified to cover curtailments that arise due to an intra-day nomination (increase) under a primary shipper GTA.</li> </ul> <p><u>Clause 10.3 (Acceptance of Off Specification Gas)</u></p> <ul style="list-style-type: none"> <li>• In paragraph (d), delete the words "which notice will take effect 2 hours after Shipper receives such notice from Service Provider". If Off Specification Gas can no longer be accepted then flows may need to cease immediately in order to protect the pipeline.</li> </ul> <p><u>Clause 21.9 (Cash Deposits – Specific Provisions):</u></p> <ul style="list-style-type: none"> <li>• Service provider and shipper should be left to agree on the nature of the deposit – costs of maintaining a separate account may exceed the minimal interest return.</li> </ul> <p><u>Clause 22.1 and 22.2 (Suspension and Termination by Service Provider):</u></p> <ul style="list-style-type: none"> <li>• clause 22.1 (a)(i) should extend to failure to provide/maintain the required</li> </ul>



		<p>level of credit support (as well as insurance)</p> <ul style="list-style-type: none"> <li>• in clause 22.1 (a) (iii), the words “repeated disregard” and “material threat to the operational integrity of the pipeline” are not sufficiently clear and should be removed. For example, a single instance of shipper injecting out of specification gas may be enough to threaten the integrity of the pipeline system and service provider should have the ability to suspend services immediately.</li> <li>• There appears to be a cross-referencing error in clause 22.2(b) – should this refer to 22.1 (a) (iii)? Following a “repeated disregard” (however many occurrences that may be?) and suspension of the services, service provider then needs to then wait 30 days before terminating the agreement. This is inappropriate given the proposal that service provider does not retain discretion to choose who it contracts with and the type and quantum of credit support.</li> <li>• Under this proposal, service provider may be required to contract with someone who does not have the technical and financial presence to meet its contractual commitments and then needs to wait for “repeated” instances of contractual breach before it can suspend services, then a further 30 days before it can terminate the contract. This poses a credible threat to the safety and security of the pipeline system. Service provider should have the ability to suspend services immediately if shipper fails to comply with contractual obligations (other than the obligation to pay charges – 7 days is reasonable) and an ability to terminate if shipper, within 7 days, cannot remedy the breach and demonstrate how it will comply with its obligations going forward. A decision by the service provider to terminate a contract will not be taken lightly (because the economic incentive is to keep the contract on foot) however service provider needs the ability to take that action where the security of the system is threatened.</li> </ul>
	<p>APA comments on facility specific terms</p>	<p>APA has the following comments on the facility specific terms.</p> <p>Clause 7(a) – a daily nomination is typically delivered at a constant rate over 24 hours. If no hourly limitation can be imposed (because the shipper does not have</p>

		<p>the equipment referred to in para (a)(iii)) then can shipper require the full daily nomination to be delivered in say 1 hour? If no hourly limitations, then need an underlying principle that 1/24<sup>th</sup> of the daily nomination will be delivered in each hour, with an MHQ factor commensurate with those available to primary shippers on the pipeline (for example, 1.1).</p> <p>Clause 8 – in addition to pressure and temperature, the Facility Specific Terms need to set out an assumed (or gross) heating value. If the shippers' gas does not meet the gross heating value (as assumed for modelling the capacity of the pipeline) then there will be insufficient capacity to meet the contracted commitment. The gross heating value will need to be specified in the Facility Specific Terms and the corresponding rights/obligations for failure to meet the requirement should be in the Standard Terms.</p> <p>Clause 9(g) – a blanket ban on other charges is not appropriate. Again, the intention is not to give preferential treatment to secondary shippers signing up to the standardised GTA. It may become necessary to re-introduce certain charges to curb reckless shipper behaviour and compensate service providers for the associated risks.</p> <p>Clause 12(e) – we are unsure what this clause means and suggest that the drafting requires clarification.</p> <p>As noted above in relation to item 4, nomination cut-off times, scheduling times and reporting times should be left to the Facility Specific Terms (instead of the Standard Terms).</p>
<b>4.2.1</b>	<b>Receipt and delivery point zones</b>	
32.	<p>What, if any, refinements do you think could be made to the indicative zones set out in Table 4.1 to maximise the pool of prospective buyers and sellers, while also:</p> <ul style="list-style-type: none"> <li>o ensuring that capacity can be transferred between points within the zone on a one-for-</li> </ul>	<p>As noted in the GMRG Consultation Paper, service providers provided the working group with indicative zone groupings to aid discussion and understanding of the possible scope for this approach for secondary trading. The zones provided had not been subject to detailed capacity modelling and confirmation.</p> <p>Importantly, further work will be required in the implementation phase to finalise</p>

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	<p>one basis if there is physical capacity at the relevant point; and</p> <ul style="list-style-type: none"> <li>o minimising the risk that secondary shippers will not be able to access capacity at a receipt or delivery point within the zone?</li> </ul>	<p>zone definitions before the market is operational.</p>
33.	<p>Do you think that:</p> <ul style="list-style-type: none"> <li>o pipelines that are connected to another pipeline should be required to define a transit point delivery zone to minimise the risk that gas cannot be transported between the two pipelines?</li> <li>o pipelines connected to an STTM should be required to define an STTM delivery to minimise the risk that gas cannot be supplied into the STTM?</li> </ul> <p>Are there any other special cases that you think would require more careful consideration to be given to the bounds of the zones?</p>	<ul style="list-style-type: none"> <li>• Defining a single delivery point as a zone in and of itself will reduce the risk that gas cannot be transported between the two delivery points, however it will limit flexibility and therefore the pool of prospective buyers and sellers. We note that many delivery points are connected to other pipelines (e.g. every delivery point at Wallumbilla connects to another pipeline).</li> <li>• Yes, defining an STTM delivery zone is appropriate to ensure certainty when interacting with the STTM and associated market obligations.</li> </ul>
34.	<p>Do you agree with the principles that have been suggested by the Standardisation project team should guide the development of zones, or are there other principles you think should be considered?</p>	<p>APA understands that the zone definitions are intended to support capacity trading without limiting the rights of primary shippers, or making a service provider worse off because of a capacity trade. In line with these aims, APA supports principles for zone definitions as follows:</p> <ul style="list-style-type: none"> <li>• Capacity can be transferred within a zone on a one-for one basis if there is physical capacity available at a relevant point;</li> <li>• Minimise the risk that secondary shippers will not be able to access capacity at a receipt for delivery point within a zone; and</li> <li>• The service provider should not be financially worse off as a result of a trade compared that capacity having been contracted on a point to point basis in the primary market. For example, a shipper who has</li> </ul>

		<p>purchased capacity from point A to point B on a pipeline, should not be able to extend that zone to point C as a way of circumventing a higher tariff for full haulage on that pipeline. Similarly, a zonal definition should not have the effect of sterilising capacity for which the service provider has not been compensated.</p> <p>These principles are independently verifiable as they relate to clear technical, engineering or commercial matters and thereby are likely to limit uncertainty and dispute in respect to zone definitions. They also allow for zone definitions to change over time if technical characteristics (such as a primary shipper raising its delivery point pressure) lead to a change in zones.</p> <p>APA does not consider that zone definitions should be determined by reference to policy outcomes such as the promotion of the NGO and Energy Council's Vision. It is not appropriate for zone definitions to focus on maximising liquidity over existing physical, commercial contractual limitations. Such an approach could have the effect of confiscating service provider or shipper capacity through the definition of zones that reduce overall pipeline capacity (or increase risk of non-delivery) for the purpose of increasing liquidity. Having principles that are 'in conflict' will also increase uncertainty over their application and undermine confidence in primary contracting where secondary shippers can access greater flexibility than primary shippers.</p>
35.	Do you think these principles should be included in the NGR?	APA suggests they are included in the Requirements for Facility Specific Terms.
<b>4.2.2</b>	<b>Secondary firm rights</b>	
36.	Do you agree with the project team's observations about the level of risk associated with secondary firm rights at receipt and delivery points? If not, please explain why.	APA agrees that the risk will usually be minimal.
37.	Apart from defining the zones more narrowly or	No further suggestions.

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	utilising the point-to-point model, do you think there are any other ways that the risk associated with the zonal model could be reduced?	
38.	If you are a potential user of the capacity trading platform would the risk discourage you from using the exchange, or do you think the risks are manageable?	The risks are manageable – shippers always have the option of acquiring capacity through a bilateral trade to ensure capacity at a specific receipt/delivery point.
39.	How do you think renomination rights should be treated vis-à-vis secondary firm rights under the zonal model?	Service provider always needs to undertake a case-by-case assessment of whether a renomination can be accepted. As an overriding principle, the primary firm capacity should rank higher than the secondary firm capacity and the service provider should have the ability to interrupt the secondary shipper if the primary shipper renominates within its operational MDQ.
<b>4.2.3</b>	<b>Governance for the zonal model</b>	
40.	Do you agree with the proposed governance arrangements for the zonal model? If not, please explain why.	<p>The definition of “Zone” in the Standard Terms contemplates that sets of receipt points or delivery points will be “classified by Service Provider as a zone in accordance with the requirements of the (NGL) and (NGR)”. In our view, the requirement to seek approval in all cases is unnecessarily burdensome. The service provider should be free to change the bounds of a zone provided that:</p> <ul style="list-style-type: none"> <li>• the objectives of the zonal concept will be maintained – ie the bounds of the zone maximise the pool of prospective buyers and sellers of capacity while also ensuring that capacity can be transferred between points within a zone on a one for one basis and minimising the risk that secondary shippers will not be able to access capacity at a point within the zone; and</li> <li>• the service provider agrees to honour trades already on foot.</li> </ul> <p>Where service provider cannot agree to honour trades already on foot, it may still recommend a change to the AER for approval after appropriate consultation and establishment of suitable transitional arrangements.</p>

		<p>Changes proposed by shippers should be required to be considered by the service provider, which must provide the requesting shipper with clear reasons for not accepting a change. A requesting shipper may refer the service provider's response to the AER for review, at which point the AER may seek expert advice, and ultimately require the change to zones if it is satisfied that the above principles are met.</p> <p>Capacity modelling is a specialist technical area – it is not appropriate for referral to an industry panel or similar. The service provider will face delivery obligations (and liability) in respect to primary and secondary gas contracts and it is not acceptable for that risk to be determined by parties with no exposure to, or knowledge or technical understanding of, that risk.</p> <p>Further, changes in primary contracting arrangements (such as pressure requirements) can lead to a need to change secondary zone definitions – it is not appropriate for the needs of primary contractors to be delayed by overly cumbersome change processes for theoretical secondary shippers. There would also be significant confidentiality issues involved in an industry panel reviewing primary shipper arrangements in respect of capacity zones.</p>
41.	Do you think the rules should specify the principles a pipeline operator, Industry Panel and/or AER would be required to consider before making a change to the zonal definition?	Zone definitions (and their change) should be determined in the first instance by service provider, applying the principles discussed above. These principles can be established in the Requirements for Facility Specific Terms.
<b>4.3</b>	<b>Receipt and delivery point change process</b>	
42.	Do you agree with the proposal to amend the NGR to provide shippers and service providers with greater guidance on the rights shippers have to seek a change; the circumstances in which a service provider can withhold its consent, the time service providers should have to respond and the level of any charges that can be recovered from	<p>No.</p> <p>The AEMC Stage 2 report recommendations referred to point to point receipt and delivery point contracting as a potential barrier to secondary trade. It was identified as a barrier because it was considered that the time sometimes taken by service providers to agree a change to receipt and delivery points in primary contracts was not conducive to short term or opportunistic trades in the secondary market.</p>

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	<p>shippers? If not, please explain why.</p>	<p>The proposed zonal model for the secondary trading market discussed above addresses this concern. It allows for immediate conversion of a point to point right to a zonal right for secondary trade without any pipeline approval process for the change during the conduct of the trade.</p> <p>The benefits of the zonal approach to increase liquidity and support speedy capacity trades are clear. It is less clear what the GMRG is trying to achieve by seeking to change existing primary GTAs to provide additional receipt and delivery point flexibility. These changes do not appear related to capacity trading.</p> <p>Outside of capacity trading drivers, primary shippers seek to change receipt and delivery points because their underlying gas transportation needs have changed. These changes are generally not required over a short time period and have long (shipper-led) lead times and notice periods. Further, the GMRG's discussion in this area has not appropriately taken into account the differing contractual and technical issues that arise in changing receipt or delivery points in respect of <i>primary</i> capacity contracts, compared to the creation of zones for the purpose of <i>secondary</i> capacity trading.</p> <p>A key design element that has made the zonal model feasible for secondary trades is the concept of subordinate firm capacity for secondary shippers at specific receipt and delivery points. This means that primary shippers have the first and exclusive right to capacity at points to which they are contracted. Changing receipt or delivery points in primary contracts moves that exclusive right from one point to another – it is therefore critical for the service provider to ensure that it can honour that firm right. This can involve detailed capacity modelling and is not a simple transfer, even when it occurs within a zone established for secondary market purposes.</p> <p>It is also important to note that existing primary contracts may include clauses that limit the ability of a shipper to change delivery points as part of a broader negotiation. Some shippers have negotiated (and are paying for) highly flexible arrangements, while others have sought to confine rights, with correspondingly lower costs. This needs to be recognised by the GMRG, and it is not appropriate for the GMRG to seek to override these terms.</p>
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		<p>APA also notes that, even for fully regulated pipelines, shippers are able to contract with a service provider on terms different to the access arrangement, including in respect of capacity trading or receipt and delivery point flexibility, if they choose to do so. This is part of the underlying contractual flexibility provided under the gas access regime which assumes that contracting parties are able to reach mutually beneficial outcomes, albeit sometimes with the existence of an approved access arrangement setting out available terms and conditions for a reference service. It is therefore unclear what 'rights' the GMRG are seeking to provide 'greater guidance' to shippers on. The shipper's rights are established through contracts signed by those shippers. Any attempt to regulate in this area would be seeking to change existing contractual rights and obligations agreed between the parties. This creates significant sovereign risk and undermines the contractual basis of the gas market.</p>
<p>43.</p>	<p>Do you agree that service providers should be able to withhold their consent if the change is not technically feasible or if the change would adversely affect other shippers' access to services?</p>	<p>Service providers need to be able to withhold consent to changing receipt and delivery points within primary GTAs because of technical or contractual reasons. Service providers currently have this right under existing GTAs, and this does not require change.</p> <p>It is highly concerning that the GMRG is considering changing existing contractual rights between service providers and shippers through this process. The Consultation Paper discussion surrounding this matter makes no reference to the potential impacts of this approach on market confidence in contracting, regulation or the scope of government intervention, and indeed makes no attempt to provide a rationale for changing primary market GTAs as an additional measure to the approach recommended for secondary market through the introduction of trading zones.</p>
<p>44.</p>	<p>Do you agree with the proposed limitation of commercial considerations (i.e. consent can be withheld if the service provider receives less revenue under its contract with the shipper or incurs additional costs and the shipper is not prepared to pay for any shortfall)? If not, please explain why.</p>	<p>Service providers need to be able to withhold consent to changing receipt and delivery points within primary GTAs because of commercial considerations. Service providers currently have this right under existing GTAs, and this does not require change.</p>

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<p>45.</p>	<p>Are there any other reasons why you think consent should be able to be withheld by a service provider?</p>	<p>A primary shipper may have sought augmentation to a pipeline segment or receipt/delivery point to meet their own needs. Where those needs change, the primary shipper may seek to move their MDQ to another point where a number of other shippers are also seeking access. An issue arises, however, where there is no real prospect that another shipper will take up the augmented capacity now abandoned by the first shipper. In this case, while the service provider may still earn the same revenue under the single contract, looking more broadly the service provider will earn less revenue overall as it is left with capacity that it has invested in (under contract and at the request of the contracting shipper) for which it has no real prospect of recontracting. At the same time, 'in demand' capacity has been taken up without additional revenue earned. This issue does not arise in respect on secondary capacity, which does not alter underlying contractual commitments or drive augmentation.</p> <p>This example provides additional evidence as to why it is inappropriate for seek to change existing primary GTAs to remove service provider rights to reject a change to contracted receipt or delivery points.</p> <p>Changing a receipt or delivery point is a variation to an existing contract that should be negotiated between the parties to the contract. Any attempt to regulate in this area would be seeking to change existing contractual rights and obligations agreed between the parties. This creates significant sovereign risk and undermines the contractual basis of the gas market.</p>
<p>46.</p>	<p>Do you think the timeframe that has been proposed for service providers to respond to requests to transfer receipt or delivery points:</p> <ul style="list-style-type: none"> <li>o within a zone is appropriate (i.e. within five business days)? If not, please explain why.</li> <li>o across a zone is appropriate (i.e. within five business days for an initial response and up to 20 business days for a final response)? If not, please explain why.</li> </ul>	<p>These timeframes are unreasonable where service provider is reliant on obtaining the consent of a third party prior to agreeing to the change (e.g. another shipper, allocation agent or an interconnect party). It is not possible to impose appropriate binding timeframes on these processes.</p> <p>APA further notes that, in circumstances where secondary trades can access a zonal capacity model, there does not appear to be a case to change existing contracts to impose timeframes on changing primary receipt and delivery points. The policy reason for developing receipt and delivery point flexibility was to support secondary market transactions. The zonal model does this. In the primary market, shippers generally have much longer lead times in respect of their capacity needs, including changing contractual receipt and delivery points. A</p>

		dispute in this area can be dealt with under existing contractual dispute resolution arrangements.
47.	Do you think provisions should be included in the NGR to override any contractual limitations on shippers seeking changes to receipt and delivery points?	<p>No. As noted above, the GMRG has not set out why it believes that primary GTAs require change (with all the consequent sovereign risk and market risk this would create) in addition to the development of a zonal secondary capacity trading model.</p> <p>In some cases, existing contracts contain even greater flexibility than the regime now proposed and such arrangements were agreed in the context of negotiations on a range of commercial issues. In other circumstances, special arrangements or discounts are offered for specific delivery points (or to support a particular shipper), on the proviso that those arrangements are not transferrable to another delivery point. It is not acceptable for these arrangements to be overridden.</p> <p>For new contracts, shippers have the opportunity to require a receipt and delivery point change process as proposed by the GMRG in their contract. If however they wish to negotiate a different regime (for example to trade off flexibility for price), then that negotiated position should apply.</p>
48.	Are there any other steps that you think could be taken to reduce the impediments to secondary trading currently posed by the receipt and delivery point change process?	No.
<b>5.1</b>	<b>Allocation agreements</b>	
49.	How significant an impediment to trade do you think allocation agreements are?	<p>Allocation agreements should not be seen as an impediment to trade because they are not the best way to facilitate trades. It is preferable that trading activities occur at in-pipe trade points rather than via allocation stacks at receipt/delivery points for the following reasons:</p> <ul style="list-style-type: none"> <li>• More accessible - in-pipe trade points are accessible to all pipeline shippers</li> </ul>

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		<ul style="list-style-type: none"> <li>• More transparent - all trading partners at the in-pipe trade points are disclosed</li> <li>• More certain – trading certainty is improved because allocations are deemed and not subject to physical variations resulting in shortfalls or over-allocations.</li> </ul> <p>In our view it is unnecessary for all participants to accede to an allocation agreement in order to promote trading activity.</p>
50.	Are there any other impediments to trade posed by allocation agreements and/or contribution agreements that have not been identified in this consultation paper? If so, please explain what they are and how you think they could be addressed.	APA does not have any comments on this item.
51.	Do you think that deeming secondary shippers to be a party to the allocation agreement is a workable solution, or can you foresee issues with this solution?	This is a matter for the producer/end user at the relevant receipt/delivery point, however from a service provider's perspective, it is essential there is a default allocation methodology (e.g. pro-rate by service priority) where parties do not agree.
52.	Do you think that providing greater transparency about who to contact to become a party to an allocation arrangement will be sufficient to reduce the impediments to trade posed by allocation agreements, or do you think that other measures (including those outlined in Table 5.1) are required to facilitate access to these agreements?	<p>Publishing details of who to contact, and possibly the current allocation methodology, is sufficient.</p> <p>As noted above, it is preferable that wherever possible allocations are handled by an in-pipe trade.</p>
53.	What effect are differences in allocation rules at points where pipelines interconnect having on shippers at these locations? Is the effect material and do you think a common allocation rule should	The differences can be a real concern for shippers (e.g. imbalance management, shortfall or over-delivery under a sales contract, etc.). It is industry standard for the upstream pipeline to determine the allocations and the downstream party to follow. This established commercial practice currently

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	be adopted across the east coast?	addresses this issue and does not require a regulatory solution.
54.	Do you think there is any value in standardising allocation agreements?	<p>Possibly, although there remains merit in allowing upstream producers/downstream users the ability to determine allocations because these have a direct impact on their sales agreements.</p> <p>Again, the best position would be if all allocations occurred at in pipe trade points. That is, 100% of the gas metered at a receipt point on a day is allocated to the producer(s) at that location and they then sub-allocate to their customers at the in-pipe trade point. We note that this is already the preference of one major Queensland producer.</p>
55.	Have you experienced any difficulties accessing receipt or delivery points that are controlled by a shipper? How prevalent an issue do you think this is and how do you think it could be addressed?	APA does not have any comments on this item.
56.	Can contribution agreements, or the charges levied under these agreements, act as a barrier to trade?	In APA's experience such charges are extremely rare and therefore they would not be a barrier to trade on APA's infrastructure.
<b>5.2</b>	<b>Imbalance clearing</b>	
57.	<p>Do you think the capacity trading platform should facilitate the trade of imbalances?</p> <ul style="list-style-type: none"> <li>○ If so, do you think this should be done through the listing service or exchange?</li> <li>○ If not, please explain why.</li> </ul>	<p>The trading of imbalances is simply the trading of gas (ie sale of positive inventory is the sale of that quantity of gas). Therefore the product is already listed at Wallumbilla and Moomba and the physical settlement is handled by APA's in-pipe trade service.</p> <p>Based on the market response to the implementation of exchange trading at Moomba, APA believes that a listing service would be sufficient initially, with the financial settlement achieved bilaterally. Again, an in-pipe trade is the best way to achieve the physical settlement.</p>
58.	Are there other options you think could be made available to shippers to facilitate the clearing of an	Yes, the in-pipe trade service is the best way to achieve imbalance transfers.

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	imbalance (e.g. extending in-pipe trading services to other pipelines)?	
59.	Are there any other impediments to a shipper clearing an imbalance (for example, are there provisions in GTAs that prohibit shippers from trading imbalances)?	APA actively promotes imbalance clearing using in-pipe trade points.
<b>5.3</b>	<b>Harmonisation of gas day start times and nomination times</b>	
60.	Do you think there is value in bringing forward the harmonisation of gas day start times in the facilitated markets? <ul style="list-style-type: none"> <li>o If not, why not?</li> <li>o If so, do you think it should be brought forward to 1 October 2019, or another time?</li> </ul>	There is potential value in bringing forward the harmonisation timetable however service providers will require a minimum of 18 months' notice to effect this change. The change also needs to be complete, such that it covers all pipeline/ compression/storage contracts, rather than just those associated with a facilitated market.
61.	Should all facilities (i.e. production facilities, pipelines, compressors and storage facilities) in the east coast to be subject to a common gas day start time? <ul style="list-style-type: none"> <li>o If not, why not?</li> <li>o If so, do you think that this should be given effect through a provision in the NGL and NGR, or is it a matter for the facilities to negotiate with users?</li> </ul>	Yes, without aligning all facilities the AEMC's objectives for gas day harmonisation won't be achieved.
62.	Do you think there is merit in harmonising nomination cut-off times across pipelines and other facilities that will be subject to the capacity trading reforms (e.g. compressors)?	Not unless and until gas day start times are harmonised. Little, if any, benefit will be realised from a common nomination cut-off if pipelines are still running different gas days.  If the gas day start time is 6am, then 2pm (D-1) is more appropriate to cater for

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	<ul style="list-style-type: none"> <li>o If not, why not?</li> <li>o If so: <ul style="list-style-type: none"> <li>- Do you think it should be harmonised to 3 pm (AEST) or another time?</li> <li>- Do you think that it should be given effect through a provision in the NGL and NGR, or is it a matter for the facilities to negotiate with users?</li> </ul> </li> </ul>	<p>pipeline scheduling, including physical configuration, and accommodating the additional steps that will be required as part of the auction and capacity trading reforms. At a minimum, the current offset (between nomination cut off and gas day start) of 16 hours should be maintained.</p> <p>Shortening the window between nomination, scheduling and the start of the gas day, including through the auction process, increases pipeliner risk in delivering firm capacity, and increases the risk that auction capacity will not be able to be delivered, thereby reducing the value of the auction product.</p>
63.	Are there any other costs or benefits associated with the harmonisation of gas day start times and nomination cut-off times that you think the GMRG should take into account?	Cost estimates have previously been provided to the AEMC in response to their rule change process.
64.	Do you agree that provisions should be included in the standardised operational GTA to require service providers operating at the interface of markets to accommodate the differences in gas days? If so, how do you suggest that this obligation be drafted?	No, it is inappropriate to shift this risk to the service provider. There could be significant system and operational issues associated with this proposal and in our view it is better to work towards a harmonised gas day.
<b>5.4</b>	<b>Contractual limitations</b>	
65.	Are there any other provisions in primary GTAs that may limit a shipper's ability to trade capacity? If so, please provide an overview of the provisions and the effect they have on a primary shipper's ability to trade.	<p>APA's Standard Gas Transportation Agreement permits the assignment of MDQ from one shipper to another, contemplating that the assignee of that capacity would also need to enter into a GTA with APA and pay APA's reasonable costs associated with the assignment.</p> <p>APA's capacity trading service (ie operational transfer) is an alternative to this assignment mechanism. The assignment mechanism may be more suitable for a long term movement of MDQ from one party to another (e.g. an industrial user has historically been supplied by a large retailer and the retailer agrees to assign part of its transportation capacity to the industrial customer so that it can handle</p>

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		its own haulage arrangements). APA has a standing offer to include the capacity transfer service facility in existing contracts for any shipper that requests it.
66.	How prevalent do you think these types of contractual limitations are?	Requests to assign MDQ under the mechanism described above are extremely rare.
67.	<p>Do you think the contractual limitations on capacity trading need to be addressed?</p> <ul style="list-style-type: none"> <li>o If so, should they be addressed through amendments to the NGR, or should the primary GTAs be re-opened?</li> <li>o If not, please explain why.</li> </ul>	<p>APA rejects the suggestion that existing contracts should be varied through regulation. There may be valid commercial or operational reasons to restrict trade/receipt or delivery point change that should not be overridden. To do so would create significant sovereign risk and undermine the contractual basis of the gas market.</p>
<b>Other</b>		
	Do you have any other feedback?	<p>Many elements of the consultation paper have not been subject to detailed (or in some cases, any) discussion within the working groups. As such they do not reflect a position of the working group, or have been endorsed as issues that require consideration/regulatory intervention. They are positions of the GMRG acting alone.</p> <p>There is a pre-disposition throughout the Consultation Paper to seek to 'solve' issues through regulatory intervention, including by changing existing contracts, without any discussion of the implications or such change on the individual contracting parties, or the general confidence of the market in contractual arrangements.</p> <p>APA remains concerned that these changes are being prosecuted in an effective vacuum, without adequate policy consideration and oversight by the established market bodies such as the AEMC, AEMO or the AER, and without adequate consideration of the broader market implications of change on the achievement of the National Gas Objective for the long term interests of consumers. A broader perspective is required throughout this process, beyond that being offered by the GMRG's issues-based prosecution of isolated elements</p>

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## PART B – Capacity Trading Platform

	Questions	Feedback
<b>7.1</b>	<b>Initial set of exchange traded products</b>	
68.	Do you agree with the project team's view that the initial set of products should be limited to firm forward haul, firm park and firm compression services on the transportation assets connecting major supply and demand centres in the east coast? If not, what products do you think should be excluded from or added to the list?	Yes, initial set of products is appropriate.
69.	Do you think there would be value in the GMRG developing the following services ahead of market start, or do you think they could be developed after market start: <ul style="list-style-type: none"> <li>o backhaul services on pipelines that are not bi-directional?</li> <li>o locational swaps?</li> <li>o an imbalance exchange traded product that parties could use to clear imbalances (see section 5.2)?</li> <li>o other (non-pipeline) storage products, such as those offered by Lochard's underground storage facility, APA's Dandenong LNG storage facility?</li> </ul>	<p>No. APA considers that the initial set of products is adequate for market start. Adding further products for market start is likely to delay the process and increase the risk and cost of market development.</p> <p>Further products can be added to the capacity trading platform through a market development process led by trading participants. This ensures that the market can evolve to meet the needs of shippers and does not impose unnecessary costs by developing products with not meaningful demand.</p> <p>APA notes that backhaul services are not firm and therefore shippers do not have a 'right' to trade to another shipper. These services (where they are offered) are not suitable as products to be listed on the capacity trading platform.</p>
70.	If you think locational swaps should be developed for	As noted above, APA considers that additional products can be developed and added to the platform in response to market participant demand as the market

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	<p>market start:</p> <ul style="list-style-type: none"> <li>o Do you think they are a substitute for capacity products, or a separate product?</li> <li>o Do you think swaps could be used in place of backhaul services at market start?</li> <li>o What locational combinations do you think should be available?</li> </ul>	<p>develops. This can include locational swap products if there is market demand.</p>
<b>7.2</b>	<b>Standardised products</b>	
71.	<p>Do you agree with the proposed contract tenors for the standardised products (i.e. day-ahead, daily, weekly and monthly) at market start, or do you think other tenors should be included (e.g. a quarterly product) or excluded at market start?</p>	<p>Yes – initial product tenures are appropriate – longer tenures such as quarterly for up to 12 months will introduce credit risk issues that will potentially complicate the market design unnecessarily – this attribute could be considered and introduced at a later date if demand develops.</p> <p>Containing the forward sales period to 3 months (monthly for 3 months) for an initial period will also allow for any changes to capacity trading zones that may be required to occur without impacting longer term trades.</p>
72.	<p>Do you agree with the proposed contract sizes for the standardised products (500 GJ), or do you think a higher (e.g. 1 TJ) or lower (e.g. 100 GJ) contract size should be adopted?</p>	<p>APA considers that 500GJ is appropriate for the start of the market, and notes that smaller contract sizes may be developed in the future should there be market demand.</p>
73.	<p><b>Firm forward haul products:</b> Do you agree with the proposed contract paths for the standardised firm forward haul products, or do you think other contract paths should be considered for market start</p>	<p>APA agrees with the proposed contract paths.</p>
74.	<p><b>Compression products:</b> Do you agree with the proposed facilities on which this service would be available at market start?</p>	<p>APA agrees with the proposed compression facility products.</p>

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75.	<b>Park products:</b> Do you agree with the proposed pipelines on which this service would be available?	Yes.
<b>7.3</b> Treatment of variable transportation charges		
76.	<p>Which option do you think should be used to deal with those cases where a primary shipper is liable to pay a variable transportation charge under its primary GTA:</p> <ul style="list-style-type: none"> <li>o variable charge paid by secondary shipper to service provider?</li> <li>o variable charge paid by primary shipper to service provider, based on actual volumes transported by the secondary shipper?</li> <li>o primary shipper's variable charge converted to a fixed charge for that portion of capacity sold for the duration of the trade.</li> </ul>	<p>In order to achieve a comparable market for primary shippers to trade an equivalent product it would be appropriate for the variable component to be converted to a fixed charge for the portion of capacity sold for the duration of the trade. The primary shipper is in a position to factor the throughput cost into their offer and recover through the trade.</p> <p>Any other option will potentially introduce enormous system complexity to try and track individual trades to charge appropriately especially with on sold capacity. Where a variable charge is paid by a secondary shipper, the trading platform will require modification to publish the variable component at the time trade to enable the buyer to adequately assess the full cost of the bought capacity thus introducing additional complexity for the platform operator and the capacity buyer. It will also be more difficult to match bids and offers as individual secondary shipper load factor will be an important factor in determining how to appropriately match bids.</p> <p>Where the primary shipper pays throughput, this undermines the confidentiality of actual nominations for the secondary shipper, but also creates risks for the primary shipper that it will ultimately price in the secondary market by assuming 100% throughput.</p> <p>This issue is also discussed in response to question 3, with more detail provided.</p>
<b>8.1.1</b> Partial or full anonymity		
77.	Do you agree that the fully anonymous option should be implemented? If not, please explain why.	<p>APA's preference would be for a partially anonymous system to reduce initial costs, and for this approach to be reviewed as liquidity increases and demand warrants. This would reflect the current practice for the Gas Supply Hub which has been demonstrated to have worked effectively for commodity trades.</p> <p>Before proceeding with a fully anonymous approach, with all its additional costs</p>

		and complexity, it is important to understand the additional value that shippers place on that anonymity. This needs to be contrasted with the costs of providing anonymity, which are not currently known.
<b>8.1.2</b>	<b>Information to be provided to service providers</b>	
78.	Do you agree that Option 2 should be implemented? If not, please explain why.	<p>If a fully anonymous approach is adopted, APA considers that option 2 is the most appropriate approach.</p> <p>Option 1 would be costly to implement and monitor and may result in significant 'double handling' of capacity that gets traded multiple times.</p> <p>Option 3 would not show future positions and therefore potentially reduce information to facility operators that is known by AEMO but not passed on.</p>
79.	Do you think AEMO should net out shippers' positions prior to transaction information being provided to service providers to transfer capacity? If not, please explain why.	Yes. This approach will reduce complexity.
<b>8.1.3</b>	<b>Other information that could be collected and provided</b>	
80.	<p>Do you think there is value in having AEMO:</p> <ul style="list-style-type: none"> <li>o collect information from the seller on the GTA and receipt and delivery points that it wants to deduct the capacity from and to provide this to service providers?</li> <li>o collect information from buyers on the GTA they want to add the capacity to and the receipt and delivery points they intend to use?</li> </ul> <p>Or do you think this information should be provided directly by the counterparties to the service provider?</p>	<p>APA notes that this issue only arises where a fully anonymous trading model is adopted. Under the current operational capacity transfer shippers execute this transaction themselves against their chosen contracts.</p> <p>Where a fully anonymous option is adopted, APA considers that this approach will reduce complexity.</p>

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81.	If you think the information should be provided by counterparties, at what point do you think they should be required to do so (e.g. as soon as practicable after the trade occurs or through the nomination process)?	As set out in response to question 80, APA considers that AEMO should collect and provide this information to service providers.
<b>8.1.4</b>	<b>Data interchange</b>	
82.	Do you think the BB CSV interface or STTM SIP data link should be used? Or do you think another option could be used?	APA has a strong preference to use an existing data link – the STTM system provides a better message acknowledgement and confirmation service than the BB interface as it is much faster (usually between 1-5 minutes compared with typically 10 minutes for the BB) and the STTM system also provides a single report for each transaction rather than a single report for all transactions which is much more difficult to investigate..
<b>8.2</b>	<b>Transfer of capacity</b>	
83.	Do you agree with the proposal for service providers to provide AEMO with confirmation that the transfer has occurred?	Yes – however it should be noted that capacity trades will need to be provided with a matching buy and sell transaction so that if one side of the trade is deemed ineligible then the pair will be rejected and this will be conveyed back to AEMO.
84.	Do you think the buyer should also be provided a confirmation, or should they only be notified if there is a problem with the transfer?	APA considers that there may be value in the buyer being notified either way.
85.	Do you have a view on the processes that should be put in place to deal with failure to transfer capacity for technical reasons?	APA considers that the trade should be nullified and the parties be exempt from obligations to pay for capacity.
<b>8.3.1</b>	<b>STTM participation and integration</b>	

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86.	Do you have any concerns about the proposal that shippers wanting to participate in the ex-ante STTM schedule would need to purchase the capacity on D-2? If so, please explain how you think this could be addressed.	APA does not have any comments on this item.
87.	Do you think there is value in trying to integrate the capacity trading platform and the STTM? If so, do you think the manual and partially anonymous, the automatic and fully anonymous or the hybrid option should be implemented? Or are there other options you think should be considered?	As per question 77 the cost of anonymity needs to be assessed against the benefits it will deliver and as such initial preference is to leverage off the current Gas Supply Hub processes and adopt a manual partially anonymous process.  Should the GMRG pursue an anonymous approach then the fully automated option would appear to be preferable.
<b>8.3.2</b>	<b>DWGM integration</b>	
88.	How do market participants currently manage MHQ constraints in the DWGM and how significant an issue do you think it is?	APA does not have any comments on this item.
89.	Do you think any of the options that have been identified to deal with accreditation constraints should be implemented? If so, please state which option you think should be implemented and why.	APA does not have any comments on this item. It would appear that this is an issue for detailed implementation that does not need to be resolved at this stage of the process
90.	To minimise implementation costs for industry, could standing or blank accreditation constraints be used?	APA does not have any comments on this item. It would appear that this is an issue for detailed implementation that does not need to be resolved at this stage of the process
<b>8.4</b>	<b>Timing of activities on D-1</b>	
91.	Do you agree with the proposed timing offsets for D-1 activities? If not, how long do you think should be	Timing appears acceptable for most activities, however the time of one hour allowed to run schedules, calculate auction quantities and transfer data to

	allowed for each activity?	<p>AEMO is manifestly inadequate and contrary to advice provided to the GMRG as minimum times over which these processes could be completed to the degree of certainty and accuracy required. This is even more the case when harmonisation occurs.</p> <p>APA considers that a period of 2 hours would be the minimum necessary given the time scheduling currently takes and the additional complexity introduced by the capacity calculation, validation and data transfer process.</p> <p>APA is also concerned that the GMRG in underplaying the complexity involved in some transactions involving pipeline operators and AEMO, and the exponential increase in system costs associated with very short information transfer timeframes, when it expresses a view that 'it is unlikely to take service providers as long as has been assumed' while seeking feedback from stakeholders as to the proposed timings.</p> <p>It is impossible for stakeholders to make an informed decision over the trade-off between timing and cost at this stage of the process. APA is concerned that the GMRG proposed cost recovery provisions will mean that service providers will bear the system development costs associated with the capacity trading and auction platform, and in doing so is ignoring these costs in its choices over market design. It is unacceptable for service providers to bear these costs, and, in accordance with APA's response to question 29, APA considers that service providers need to be able to recover these costs through capacity trading and auction participation fees, and that they should be relevant to decisions over market design.</p>
92.	Do you think a uniform close of trading time should be adopted or different close of trading times?	Only in conjunction with gas day start time harmonisation
93.	If a uniform close of trading time is to be adopted, do you think 11 am is appropriate or do you think another time would be more appropriate (e.g. post the NEM pre-dispatch, which currently occurs shortly after 12.30pm)? If you think a later time would be more	APA does not have any comments on this item.

	appropriate, how do you foresee all the activities being carried out prior to nomination cut-off time?	
<b>9.1</b>	<b>Settlement process</b>	
94.	Do you agree with AEMO's proposal to combine the settlement amounts for capacity products and gas products? If not, please explain why.	APA does not have any comments on this item.
95.	Do you think any changes need to be made to the settlement process to accommodate capacity products?	APA does not have any comments on this item.
<b>9.2.2</b>	<b>Prudential exposure</b>	
96.	Do you agree with AEMO's proposal to aggregate the prudential requirements across gas and capacity products on the GSH? If not, please explain why.	APA does not have any comments on this item.
97.	Do you think the same collateral requirements that currently apply to gas products should also apply to capacity products on the GSH? Or do you think a lower level of collateral is required in the forward period? If so, what level do you think this should be set at or do you think further quantitative work should be carried out to determine the level of collateral?	APA does not have any comments on this item.
98.	If the collateral requirement was to be reduced in the future period, would you be comfortable receiving a lower level of compensation if a default event occurs? Or alternatively, do you think the compensation level could be maintained at 25% but	APA does not have any comments on this item.

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	the collateral reduced?	
<b>10.1</b>	<b>Delivery default, pre-trade verification and short selling</b>	
99.	Are there any other circumstances in which you think delivery default could occur?	Yes it is conceivable that a Shipper could offer capacity that they do not have contractual rights to.
100.	Do you think there is value in developing a registry that could be used by AEMO to verify whether sellers have capacity to sell before they enter into a trade, or do you think the costs of doing so are likely to outweigh the benefits?	No, and this is not in line with the Gas Supply Hub commodity market which has conduct provisions requiring shippers to warrant they have the commodity they are selling. Implementing a registry will create significant additional cost and complexity for capacity when commodity presents a far greater exposure given the relative unit prices.
101.	Do you think the market conduct rules will deter Trading Participants from engaging in short-selling?	Yes, these provisions appear to have worked effectively in the commodity market to date
<b>10.2</b>	<b>Default under primary GTA</b>	
102.	Do you think arrangements should be put in place (other than cancellation) to mitigate the risk of termination of the primary GTA, such as options 2 and 3? If you think other options should be used: <ul style="list-style-type: none"> <li>o Why do you think capacity should be treated differently to gas products?</li> <li>o Why do you think it is appropriate for service providers to be subject to the obligations that would come with these options?</li> <li>o Do you support options 2 and/or 3(a) or (b)? What other options are available?</li> </ul>	No, it would be inappropriate for the service provider to assume liability for a trade made by a primary shipper. Secondary shippers always have the option of negotiating for primary capacity direct from the service provider (subject to availability), and can manage the risk of default by the primary shipper through their capacity transfer agreement.
103.	If you think option 2 should be used, how long do you think service providers should be required to honour	APA does not support option 2.

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	the trade (e.g. 1-2 days, one month, or for the duration of the trade)?	
104.	<p>If you think buyers should have an option to acquire the capacity from the service provider, do you think:</p> <ul style="list-style-type: none"> <li>o the buyer should have a first right of refusal, an enforceable option or a general right to initiate good faith negotiations?</li> <li>o the price at which the secondary shipper can access the capacity should be specified in the operational GTA or be regulated in some way?</li> </ul>	<p>Introducing such a measure would require significant procedural complexity for something that would not be expected to occur on a regular basis.</p> <p>A secondary shipper would be able to approach the service provider to buy primary capacity at any time – no special rights or arrangements are necessary for this to occur.</p>
105.	Do you agree that if the trade has to be cancelled, then the effect of the cancellation should be borne by all secondary shippers on a pro-rata basis?	No this would involve significant complexity and would only apply to secondary trades that were for the same specific receipt and delivery zones so this will significantly limit any ability to share or remedy the situation. Trades will need to be made in pairs (buy & sell) so it would be appropriate for that one to one relationship to continue.
<b>10.2</b>	<b>Default under operational GTA</b>	
106.	<p>Do you agree that if default under the operational GTA occurs:</p> <ul style="list-style-type: none"> <li>o after the trade is effected, the trade should be allowed to proceed?</li> <li>o before the trade is effected, the trade should be cancelled?</li> </ul>	Yes.
<b>10.2.2</b>	<b>Default on GSH financial obligations</b>	
107.	Do you think the arrangements that currently apply to seller defaults under the GSH should be applied to capacity products, or do you think that any transfers	APA does not have any comments on this item.

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	of capacity that have already occurred at the time of default should be excluded from the close out and offset calculation?	
<b>10.2.3</b>	<b>Short selling</b>	
108.	If a short sale occurs, do you think the trade should automatically be cancelled, or do you think the seller should have a period of time to rectify the short sale before it is cancelled?	The trade should automatically be cancelled.
109.	If seller is unable to rectify the short-sale (e.g. because there is no spare capacity on the pipeline), should the capacity of all affected secondary shippers be curtailed on a pro-rata basis?	No – this would create significant uncertainty for all trading participants – the offending party should be liable to their matched trading participant only.
<b>11</b>	<b>Bilateral trading obligations</b>	
110.	Do you think that shippers offering to sell capacity on a bilateral basis should be required to offer a prospective buyer the option of using an operational transfer to give effect to the trade? <ul style="list-style-type: none"> <li>o If not, please explain why.</li> <li>o If so, do you think the proposal to include a provision in the NGR to require shippers to offer this option will work effectively?</li> </ul>	Given that operational transfers will be in place for platform-traded capacity it would be appropriate for this to be an optional offer, however other options such as bare transfer or assignment may also suit some buyers.
111.	Do you think it should be mandatory for shippers to advertise any secondary capacity trades conducted outside the exchange ahead of time on the listing service?	While this requirement may increase transparency associated with secondary market trades, it is likely to operate as a barrier to short term trades and trades involving limited lead time (for example, remainder of day capacity trades).  APA understands that some shippers have standing arrangements with other

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	<ul style="list-style-type: none"> <li>o If not, please explain why and also outline whether you think the AEMC's concerns about discriminatory access could be dealt with in another way.</li> <li>o If so, how do you think the practical issues raised by the project team could be overcome?</li> </ul>	<p>shippers to trade capacity as this reduces search and transaction costs. While this approach may mean that other potential buyers or sellers of capacity do not have opportunity to compete for that trade, the value of trades are likely to be low such that the additional costs associated with more 'open' trades may mean they do not occur. This may lead to higher costs and lower pipeline utilisation at the margins.</p>
<b>12</b>	<b>Governance and transitional arrangements</b>	
112.	Are there any other changes that you think will be required to the governance arrangements that have not been identified in Table 12.1?	
113.	How long do service providers think it will take to set up any systems that may be required and to test these systems with AEMO?	<p>System development and testing will require <u>at least</u> 6 months after AEMO procedures have been finalised, assuming it is a reasonably simple market design. It is not possible to commence this work prior to completion of procedures as the procedures drive the detailed requirements that must be reflected in systems. Note that implementing a market design involving full anonymity is far more complex and will require additional time.</p> <p>It is critical that adequate time is also provided for system testing, including between service providers and AEMO.</p>
	<b>Other</b>	
	Do you have any other feedback?	