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Gas Market Reform Group  
Via email: [admin@gmrg.coagenergycouncil.gov.au](mailto:admin@gmrg.coagenergycouncil.gov.au)

### **Consultation on contract standardisation and capacity trading**

Dear Dr Vertigan

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to comment on the Gas Market Reform Group's (GMRG) consultation paper on the work streams of contract standardisation and capacity trading.

APGA considers that requesting public written responses to a formal consultation paper is an excellent complement to the discussions being undertaken through the project teams and encourages the GMRG to continue to use both processes to progress the significant reforms being developed.

Attached is a submission covering APGA's key issues. Of particular concern, APGA would like to highlight that the consultation paper sets out a standard operational GTA that would leave a pipeline service provider unable to refuse to enter a contract with an access seeker. This is not consistent with standard commercial practice and goes beyond the requirements imposed on regulated pipelines.

APGA looks forward to working with the GMRG to discuss this and other issues raised in the paper.

Yours sincerely

STEVE DAVIES  
Chief Executive Officer

## **Comments on issues raised in the Consultation Paper**

### **Ability of a pipeline service provider to refuse to enter an operational GTA**

The discussion on credit support arrangements and liability provisions in the consultation paper, describes the intent of the operational GTA is that pipeline service providers must enter into an agreement with any counter-party that wishes to.

The proposed scheme discusses credit support arrangements and seeks to set limits to credit support in the standardised terms. APGA does not support this approach.

APGA notes that access arrangements for pipeline subject to full regulation leave prudential requirements, or the 'creditworthiness' of a counterparty to the service provider to determine. It is unclear why the GMRG have chosen a different path here.

Consistent with arrangements applying to pipeline subject to full regulation, pipeline service providers must be able to decline to enter into GTAs with counter-parties deemed unsuitable on technical or financial grounds. Credit support is particularly important as debt and equity markets take into account the credit rating of a service providers customers – it goes directly to the reliability and quality of an asset's revenue streams and hence its costs of financing.

Further, as covered below, the scope of potential damage to pipelines and connected facilities arising from the actions of a shipper (including a secondary shipper) such as the injection of off-specification gas, are very large, and far exceed the potential credit support arrangements being discussed in the Consultation Paper.

APGA considers that the pipeline specific terms should cover credit support arrangements, with a requirement that they be consistent with those applying to primary shippers on the pipeline, and commensurate with the credit and other risks posed by the secondary shipper to the pipeline and connected facilities, including the potential scope of liability that may arise.

APGA is open to a discussion on principles or criteria setting out the suitability of counter-parties, as well as oversight on the application of these principles by service providers.

### **Off-specification gas provisions**

#### **Question 5-6**

It is fundamental to all GTAs that any party injecting off-specification of gas into a pipeline is ultimately liable for the consequences arising from that.

APGA is comfortable with the approach set out in the Consultation Paper and the clause in the draft Operational GTA Code.

APGA notes the commentary on page 38 that:

*Service provider representatives also claimed that shippers can back-to-back any liability that they have to service providers with their gas supplier. However, the GMRG understands that in practice this does not occur because shippers tend to have very little bargaining power in negotiations with gas producers. So shippers generally find themselves caught between service providers who require uncapped indemnities and producers who are willing to take only a limited degree of liability, and certainly no liability beyond direct losses.*

Producers' refusal to accept sufficient liability for failing to provide gas to a contracted specification should not result in pipeline service providers, or other shippers, having to incur a loss as a result of off-specification gas being injected into a pipeline. If shippers find themselves being forced to accept gas supply contracts without sufficient liability provisions for to cover the supply of off-specification gas, they should raise this issue with the ACCC as it conducts its Gas Market Transparency Inquiry.

## **Facility-specific terms**

### **Question 3-4**

The proposed approach to facility specific terms appears overly prescriptive. The Operational GTA Code should do little more than set out a descriptor list of the facility-specific terms to be covered in each facility's operational GTA.

## **Governance arrangements for the operational GTA**

### **Questions 19-22**

The Consultation Paper sets out a number of options for the ongoing governance of the Operational GTA Code, with the GMRG indicating a preliminary view that a hybrid governance model should be adopted with roles for both AEMO and the AER. APGA supports the use of a hybrid model. AEMO, as the operator of the trading platform and supply hubs, will have multiple engagement processes with gas market participants and there is the potential for these to leverage each other for efficiency.

APGA considers that the AEMC is more appropriately placed than the AER to be the final decision maker for changes to the Operational GTA Code. The Australian Energy Market Agreement (AEMA) sets out clear responsibilities for each energy market institution. Approving changes to the Operational GTA Code, and in particular making alternative changes to those recommended, is a responsibility closer to the rule making role of the AEMC than it is the regulation and compliance role of the AER.

## **Cost Recovery**

### **Questions 29-31**

Cost recovery for service providers should extend beyond the costs of establishing operational GTAs with shippers and cover the costs associated with system and communication upgrades required to facilitate trading through a centralised platform.

APGA does not consider it appropriate to enter a discussion on costs associated with auctions in this consultation.

The AER should be able to review any costs claimed for recovery by service providers, similar to the provisions that exist under the STTM for recovery of MOS costs.

## **Prioritisation of rights at receipt and delivery points**

### **Question 33**

It seems sensible that receipt and delivery points likely to attract the most trade activity, being connection points between major pipelines (these should be defined) and the delivery points to STTMs (or other markets), be specified as single points rather than multi-point zones.

### **Questions 36-39**

APGA supports the GMRG's position for the treatment of secondary firm rights. It is the simplest way to balance the primary firm rights at each receipt and delivery point and the desire to introduce a zonal trading model.

Maintaining the primacy of primary firm rights is vital to ensuring sufficient investment occurs at specific receipt and delivery points to meet peak demand requirements.

## **Governance of the zonal model**

### **Questions 40-41**

Service providers should be the determiner of delivery zones for each asset. Service providers have full knowledge of the operational requirements of each pipeline and bear the delivery obligations, with associated liability) of each GTA. The achievement of the zonal model objectives while managing the unique operational and contractual arrangements of each pipeline cannot be met by an industry panel.

Further, service providers may need to change bounds of a zone based on changes to the requirements of primary shippers (such as change in delivery pressure) and the ability to do so should not be limited by as yet unrealised future trades. In circumstances where zones are changed, it is appropriate the service provider undertake to honour existing trades to the extent possible.

## **Management of delivery default**

### **Question 99-106**

APGA agrees that the costs of establishing, and maintaining, a capacity registry to prevent short-selling would easily outweigh the benefits of preventing short-selling. It is appropriate that this issue is managed in the same way as trades through the Gas Supply Hubs, through the application of market conduct rules.

APGA considers that delivery default is a matter for shippers and should be managed in line with the approach for gas in the Gas Supply Hub where shippers warrant they have the capacity they are selling. It is unnecessary and onerous to shift the responsibility for verifying that primary shippers have capacity to sell to service providers. However, service providers must retain the ability to refuse to honour trades which exceed the contractual capacity of the seller, so as to protect the rights of those shippers who observe their contractual obligations.

APGA supports the GMRG's preliminary views set out in Section 8.1.2 and 8.1.3 for the data transfer process and data to be included.

Where defaults do occur and the pipeline service provider has the ability to complete delivery, the capacity provided should be treated as any other uncontracted capacity for sale. 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.

## **Initial set of exchange trade products**

### **Questions 68-70**

The trading of services should be naturally limited to those services that are firm in nature. These are products that have been bought in primary markets under take or pay arrangements to which the primary shippers have a right, and the services that shippers may wish to monetise when they are unutilised.

Services such as backhaul are not provided as firm or under take or pay arrangements. They are made available to shippers subject to operational capability and under 'pay as used' arrangements. They are not suitable products for trade.

## **Charging parameter for capacity products**

### **Question 76**

APGA supports the use of Option 3. As it is already in place, it is apparent that many market participants find it acceptable. It is the simplest administratively and primary shippers are able to factor in the variable component when they determine the prices at which they are willing to trade. It also maintains confidentiality of actual shipped quantities.

## **Curtailment**

### **Question 12**

The GMRG's proposed regime for curtailment is appropriate.