

Capacity Trading Reform Package: Draft legal and regulatory framework

(National Gas Law, National Gas Rules, Regulations and Code)

Consultation Paper

19 March 2018





Submissions

Stakeholders are encouraged to make submissions in response to this consultation process by **5pm (AEST) Friday 27 April 2018** using the template set out in Attachment 2.

Electronic submissions are preferred and can be sent via e-mail addressed to the Gas Market Reform Group (GMRG) at enquiries@gmrq.coagenergycouncil.gov.au

Stakeholders who wish to provide hard copies by post may do so by addressing their submissions to:

Gas Market Reform Group
c/o Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

The GMRG has a strong preference for public submissions to generate full and frank debate. All stakeholder submissions will be published on the GMRG's website at <http://gmrg.coagenergycouncil.gov.au/> unless stakeholders have clearly indicated that a submission should remain confidential, either in whole or in part.

In addition to providing a written submission, stakeholders will have an opportunity to attend a public forum, which will be held in Melbourne on **22 March 2018**. Stakeholders are encouraged to express their interest in attending this forum by emailing enquiries@gmrq.coagenergycouncil.gov.au.

For further information on making a submission, please contact the GMRG via email at enquiries@gmrq.coagenergycouncil.gov.au.



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Abbreviations

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AEST	Australian Eastern Standard Time
APGA	Australian Pipelines and Gas Association
BB	Natural Gas Services Bulletin Board
COAG	Council of Australian Governments
DTS	Declared Transmission System
DWGM	Declared Wholesale Gas Market
<i>East Coast Review</i>	AEMC's <i>Eastern Australian Wholesale Gas Market and Pipelines Framework Review</i> (May 2016)
Energy Council	COAG Energy Council
GMRG	Gas Market Reform Group
GSH	Gas Supply Hub
GTA	Gas Transportation Agreement
MDQ	Maximum Daily Quantity
MHQ	Maximum Hourly Quantity
NGL	National Gas Law
NGO	National Gas Objective
NGR or Rules	National Gas Rules
STTM	Short Term Trading Market



Key terms used in legal and regulatory framework

Term	Definition
Types of market participants	
facility operator	For the purposes of Part 25 (Capacity auction) means the operator of an auction facility (i.e. a non-exempt transportation facility).
	For the purposes of Part 26 (Standard market timetable) means for: (a) a production facility: each producer, user or non-scheme pipeline user who owns, operates or controls the production facility; (b) a gas storage facility: each storage provider for the gas storage facility; and (c) a transportation facility: each transportation service provider for the facility.
transportation service provider	Means a person that owns, controls or operates (or intends to) a pipeline, a compression service facility or another facility specified in the Regulations.
transportation facility user	Means a person that is party to a contract with a transportation service provider (e.g. a primary facility agreement or an operational transportation service agreement).
primary shipper	Means a transportation facility user in its capacity as a party to a primary facility agreement.
secondary shipper	Means a transportation facility user in its capacity as a party to an operational transportation service agreement.
auction participant	Means a person that is party to an Auction Agreement with AEMO.
Types of facilities	
natural gas facility	Means a production facility, a transportation facility or a gas storage facility.
production facility	Means a facility at which natural gas is produced so that it is in a form suitable for injection into a pipeline.
gas storage facility	Means a facility for storing natural gas for injection into a pipeline.
transportation facility	Means a pipeline, compression service facility or another facility specified by the Regulations.
bidirectional pipeline (or part of a pipeline)	A pipeline (or part of a pipeline) will be classified as bidirectional if the direction of the physical flow of gas on the pipeline (or part) is capable of being reversed under normal operating conditions through the operation of plant and equipment forming part of, or connected, to the pipeline.
Part 24 facility	Means a transportation facility that is not an exempt transportation facility. These facilities are subject to both the obligation to publish a standard operational agreement and the auction.
Part 24 compression facility	Means a compression service facility that is or may be used to transport gas between a transmission pipeline operating at lower pressure and a transmission pipeline operating at a higher pressure to facilitate the flow of gas between two or more receipt or delivery points where the points are located on different pipelines.
exempt transportation facility	A transportation facility (or part of a facility) that is subject to an exemption under Part 24 (note that this exemption applies to both the obligation to publish a standard operational agreement and the auction).
auction facility	A transportation facility that does not have an exemption under Part 24.
Types of agreements and instruments	
facility agreement	Means a primary facility agreement (e.g. a primary gas transportation agreement) or an operational transportation service agreement.
primary facility agreement	Means a contract (other than an operational transportation service agreement) between a transportation facility user and a transportation service provider under which the transportation service provider provides a transportation service to the user.



Term	Definition
operational transportation service code (the Code)	Means the statutory instrument made under the NGR that specifies the content of, or requirements for the content of, standard operational agreements, including the transportation services that may be provided under a standard operational agreement and the terms and conditions applicable for use of those transportation services.
operational transportation service agreement (Operational TSA)	Means an agreement between a transportation service provider and a transportation facility user that provides for the transportation facility user to receive a transfer of transportation capacity acquired through the auction, capacity trading platform (gas trading exchange) or any other means provided for in the agreement and the terms and conditions applicable to the provision and use of the service.
standard operational agreement	Means the agreement that the transportation service providers who are not exempted from the obligation to do so must prepare in accordance with the requirements of the NGL, NGR and Operational Transportation Service Code and offer to enter into in accordance with the NGL and NGR.
Services	
transportation service	Means a pipeline service, a service provided by means of a compression facility or a service provided by means of any other facility specified in the Regulations.
operational transportation service	Means a transportation service that is provided under an operational transportation service agreement and a service ancillary to the provision of this service.
standard operational transportation services	Means services for which a service description, standard terms and conditions for provision and use of the service and a description of and requirements for facility specific terms applicable to the service, are included in the Code.
backhaul service	Means a pipeline service provided by means of a single direction pipeline, where the direction of service is opposite to the actual physical flow of gas in the pipeline.
Other capacity trading and day-ahead auction concepts	
gas trading exchange	Means a facility through which persons may elect to buy and sell natural gas or related goods or services, including pipeline capacity. The gas trading exchange is commonly referred to as the Gas Supply Hub (GSH) and is also referred to as the 'exchange' in this Consultation Paper.
transportation capacity	Means a right under a contract with a transportation service provider to be provided with a transportation service by means of the transportation service provider's transportation facility, for a given quantity of gas over a given period of time.
auction capacity	Means the quantity of transportation capacity available to be allocated in the auction for the gas day.
secondary capacity transaction	Means a disposal by a transportation facility user to another person of a right to use transportation capacity, including disposal by means of transfer, sale, assignment, exchange or other disposal and the grant of a right to use, directly or indirectly, the transportation capacity.
transfer	Means a reduction in a person's right to the transportation capacity and a corresponding increase in another person's right to capacity, whether or not on the same conditions.
reserved	Means: <ul style="list-style-type: none"> (a) a transportation facility user has a right to nominate for use of a transportation service provided by means of the transportation capacity on a gas day; (b) that right was acquired in advance of the nomination cut-off time for the gas day; and (c) the right relates to a specified quantity of transportation capacity (that quantity being the reserved capacity).



Term	Definition
firm	<p>Means that:</p> <p>(a) transportation capacity for use of the transportation service on a gas day is reserved capacity;</p> <p>(b) in the ordinary course, nominations made by another transportation facility user for use of that or any other transportation service do not impact the quantity of reserved capacity or the scheduling of a nomination for use of the reserved capacity; and</p> <p>(c) a nomination made before the nomination cut-off time for use of the transportation service on a gas day up to the quantity of reserved capacity will, in the ordinary course, be scheduled and not curtailed,</p> <p>and the terms “firm forward haul service”, “firm backhaul service”, “firm compression service” and “firm park service” refer to forward haul, backhaul, compression and park services that are firm as provided for in this definition.</p> <p>Auction services and services that allow a firm service user to nominate or use a quantity of a firm transportation service in excess of the reserved capacity (such as an authorised overrun service) are not firm within the meaning of this definition.</p> <p>Note that transitional rules will provide for “grandfathered” services to be treated as firm for the purposes of this definition.</p>
lower tier service	<p>Means any transportation service provided by means of an auction facility other than an auction service, a firm forward haul service, a firm backhaul service, a firm compression service or a firm park service. Examples of lower tier services include transportation services:</p> <p>(a) described as “interruptible”, “as available” or as “authorised overrun” (or services equivalent in nature to such services);</p> <p>(b) where the transportation service provider has no obligation to accept a nomination for the service; or</p> <p>(c) which are only scheduled if transportation capacity remains after day-ahead nominations for reserved capacity (by the holders of rights to that reserved capacity) have been met.</p>
nomination	Means, information about a person’s intended use of a service provided by means of a natural gas facility on one or more gas days or any part of a gas day; and the process and timetable for the provision of the information to a facility operator.
renomination	Means a request made after the nomination cut-off time to vary an earlier nomination for use of transportation capacity and includes a nomination made after the nomination cut-off time.
transaction support arrangements	Means the arrangements required to facilitate transactions conducted through either the capacity trading platform or the day-ahead auction.
Harmonisation concepts	
gas day	Means a period of 24 consecutive hours used for the nomination, scheduling and provision of services provided by means of a natural gas facility.
standard gas day	Means the 24-hour period starting at 6 am as specified in the rule 678(1).
nomination cut-off time	Means the time by which a day-ahead nomination for a gas day must be made in order to be used for scheduling for that gas day.
standard nomination cut-off time	Means 3:00 pm on the gas day immediately preceding the gas day to which the nomination relates as specified in rule 678(2).
standard market timetable	Means the standard market timetable specified in the Rules in accordance with section 83B of the NGL.



1. Introduction

The Gas Market Reform Group (GMRG) was established by the COAG Energy Council (Energy Council) in the latter half of 2016 to lead the design, development and implementation of a range of reforms set out in the Gas Market Reform Package, including a package of capacity trading reforms.¹

The capacity trading reform package was recommended by the Australian Energy Market Commission (AEMC) as part of its *Eastern Australian Wholesale Gas Market and Pipelines Framework Review (East Coast Review)* and endorsed by the Energy Council at its August 2016 meeting. The reforms, which relate to transmission pipeline and compression services (jointly referred to as ‘transportation services’), include the implementation of:

1. A capacity trading platform that will form part of the gas trading exchange (Gas Supply Hub (GSH)) and provides for exchange-based trading of commonly traded transportation products and a listing service for other more bespoke products.
2. A day-ahead auction of contracted but un-nominated capacity, which will be conducted each day on non-exempt transportation facilities shortly after nomination cut-off and subject to a reserve price of zero.
3. Standard operational agreements that will establish the standard contract terms between service providers and shippers for capacity procured through the trading platform, day-ahead auction and bilaterally, and a range of other measures to facilitate capacity trades and the auction.
4. A reporting framework for secondary capacity trades and a number of other transparency measures that are designed to facilitate capacity trades and the auction.
5. A harmonised gas day start time of 6 am (AEST) and a common nomination cut-off time of 3 pm (AEST) for pipelines and compression facilities that are subject to the capacity trading reforms.

Together these reforms are expected to foster the development of a more liquid secondary capacity market and, in so doing, improve the efficiency with which capacity is allocated and used on transportation assets operating under the contract carriage model (i.e. outside the Declared Transmission System (DTS) in Victoria),² by:³

- using market-based processes to allocate capacity on a non-discriminatory basis to those that value it most;
- improving the incentive shippers have to trade capacity and posing a constraint on the ability of pipeline operators to sell secondary capacity at prices in excess of what would be expected in a workably competitive market;
- reducing search and transaction costs; and
- reducing information asymmetries and aiding the price discovery process.

¹ COAG Energy Council, Bulletin Two: Gas Market Reform Package, August 2016.

² There are currently two different models used to allocate and manage pipeline capacity in Australia:

- the market carriage model, which provides open access to the Victorian DTS and uses outcomes from the operation of the Declared Wholesale Gas Market (DWGM) to allocate pipeline capacity; and
- the contract carriage model, which is in use on all other pipelines and relies on bilateral contracts between the pipeline operator and shippers to allocate pipeline capacity.

³ AEMC, Stage 2 Final Report: East Coast Review, 23 May 2016, pp. 69 and 73.



1.1 Progression of the capacity trading reform package

Work on the design of the capacity trading reforms commenced in early 2017. Following a detailed consultation process that was conducted over 2017, which included a large number of meetings with industry-based project teams, the GMRG provided its final recommendations to the Energy Council on:

- the proposal to accord the Australian Energy Market Operator (AEMO) responsibility for operating and administering the capacity trading platform and the day-ahead auction, which was approved by the Energy Council at its 14 July 2017 meeting;⁴
- the proposed design of the capacity trading platform, the secondary trading reporting framework, the standardisation related reforms, the harmonisation of gas day start times and nomination cut-off times and other measures to reduce barriers to trade, which were approved by the Energy Council at its 24 November 2017 meeting;⁵ and
- the proposed design of the day-ahead auction, which were approved by the Energy Council out-of-session on 3 January 2018.⁶

The GMRG also provided its final recommendations to the Energy Council on the timing of the commencement of the reforms, which were that:

- the capacity trading platform and day-ahead auction should commence on **1 March 2019**; and
- the harmonised gas day start times and nomination cut-off times should commence on **1 October 2019**.

These recommendations were endorsed by the Energy Council at its 24 November 2017 meeting.

The draft package of legislative and regulatory changes contained in Attachment 1 is designed to give effect to the Energy Council approvals, but in addition contains some refinements to better reflect the objectives of the approved design. These refinements are the outcome of additional work on a number of aspects of the design that GMRG foreshadowed would be required to be undertaken in early 2018, in conjunction with AEMO and industry, and from an enhanced understanding of the operational environment arising from further engagement with stakeholders. These refinements, which will be consulted upon through this process and will require Energy Council approval, relate to:

- the following aspects of the standardisation related reforms and other measures to facilitate capacity trading and the auction:

⁴ GMRG, Final Recommendations on the Operations and Administration of the Transportation Capacity Trading Platform and Day-Ahead Auction, June 2017.

<http://gmrgrg.coagenergycouncil.gov.au/publications/gmrgr-recommendation-on-who-should-operate-capacity-trading-platform-auction>

⁵ GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017.

<http://gmrgrg.coagenergycouncil.gov.au/publications/design-standardisation-reforms-capacity-trading-platform-and-reporting-framework-final>

⁶ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017.

<http://gmrgrg.coagenergycouncil.gov.au/publications/design-day-ahead-auction-contracted-un-nominated-capacity-final-recommendations>



- the circumstances in which service providers can obtain an exemption from the obligation to publish a standard operational agreement and the day-ahead auction can be obtained;
- the governance arrangements that will apply to the specification of zones, service points and pipeline segments that will be used in the day-ahead auction, capacity trading platform and reporting framework;
- the role of the Australian Energy Regulator (AER) in relation to the Operational Transportation Service Code (Code);⁷ and
- the way in which contractual limitations on capacity trading in facility agreements will be addressed;
- the following aspects of the design of the day-ahead auction:
 - the as available and authorised overrun rights that will be grandfathered and the term over which they will be grandfathered;
 - the contract path model that will be used in the auction (i.e a point-to-point, zonal or hybrid model); and
 - the methodology used to calculate the auction quantity limits;
- the measures to improve the transparency of allocation agreements; and
- the transitional arrangements that will be required to facilitate the harmonisation of gas day start times.

Further detail on these refinements can be found in Chapters 4-8.

1.2 Jurisdictional application of the reforms

A final decision on the application of these reforms to Western Australia (WA) and the Northern Territory (NT) is yet to be made. In the event the reforms are adopted in WA, amendments to the National Gas Law of WA and regulations made under that Law will need to be made.

In relation to the NT, the AEMC has recently completed a review into whether the reforms should extend to this jurisdiction. The Energy Council is expected to consider this recommendation in April and to then make its final decision on whether the reforms should apply in the NT. Given this is expected to occur during this consultation process, the proposed legal and regulatory package has been drafted on the basis that the NT will become subject to the reforms once the Northern Gas Pipeline is commissioned, so that stakeholders can see how the reforms would apply to the NT. If the Energy Council decides that the reforms should not apply in the NT (or if only some of the reforms should apply), then the legal and regulatory package will be amended accordingly.

1.3 Implementation process

Before the capacity trading reform package can be implemented, work will be required on the following tasks:

⁷ The Code is a new regulatory instrument that will set out the standard terms to be adopted by all service providers and the requirements for facility specific terms in standard operational agreements.



1. Legal and regulatory framework development, which will involve:
 - amending the National Gas Law (**NGL**), the regulations made under the NGL (**Regulations**), the National Gas Rules (**NGR** or **Rules**) and developing a new regulatory instrument, the Operational Transportation Service Code (**Code**); and
 - the development of the Capacity Transfer and Auction Procedures and the Auction Agreement and amendments to the Exchange Agreement and number of other AEMO-procedures, including the Natural Gas Services Bulletin Board (Bulletin Board or BB), Short Term Trading Market (STTM), Declared Wholesale Gas Market (DWGM) and retail market procedures.
2. Market systems development, which will involve designing, developing and testing the new systems required for the capacity trading platform and day-ahead auction.
3. Industry readiness, which will involve the development of guidelines and training material for market participants and other market readiness related activities.

This work is being carried out jointly by the GMRG and AEMO, with:

- the GMRG responsible for the development and consultation on the legal and regulatory framework set out in (1)(a) (the subject of this Consultation Paper), which will need to be approved by the Energy Council; and
- AEMO responsible for carrying out the work set out in (1)(b), (2) and (3).

The proposed timing of these activities is set out in Figure 1.1.

As this figure highlights, changes to the legal and regulatory framework outlined in (1)(a) will need to be approved by the Energy Council. If the changes are approved, the South Australian Minister for Mineral Resources and Energy will need to progress an NGL Amendment Bill through the South Australian Parliament. Following the proclamation of the changes to the NGL, the South Australian Minister will make the changes to the Regulations and NGR and will make the initial Code. This is expected to occur by late September 2018 or early October, but this timing is conditional upon the passage of the Amendment Bill through the South Australian Parliament and its subsequent proclamation.

Once the changes to the NGL and NGR are made, AEMO will proceed to make the subordinate instruments outlined in (1)(b). This is currently scheduled to occur in October 2018, but this timing is conditional on the timing of changes to the NGL and NGR. To progress the development of these instruments, AEMO intends to consult with stakeholders in two stages, with the first stage to be carried out between 27 April 2018 and 14 May 2018 and the second stage to be carried out between 14 August 2018 and 25 September 2018.



Figure 1.1: Implementation time frames for the capacity trading platform and day-ahead auction

Implementation tasks	Q4 2017	Q1 2018				Q2 2018			Q3 2018			Q4 2018			Q1 2019		
	Dec	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Legal and Contractual Architecture																	
GMRG and AEMO																	
Technical development and stakeholder feedback		Informal consultation															
GMRG																	
NGL, Regulations, NGR and Operational Transportation Service Code		Drafting			Formal consultation	SCO and Energy Council approval		NGL, Regulations, NGR and Operational Transportation Service Code made by SA Minister			★						
AEMO																	
AEMO Procedures for Auction and Capacity Trading Platform					Drafting					Formal consultation	Made by AEMO						
System Design, Development and Testing																	
AEMO																	
High level system design		System Design															
Registration, market integration, interface with service providers					Phase 1 System Development												
Auction bid interface and solver					Phase 2 System Development												
Settlement and prudential systems, market reports and Bulletin Board changes					Phase 3 System Development												
Industry testing (Capacity Transfer Interface, Reporting)												Industry Test					
Industry trial															Industry Trial		
Technical development and stakeholder feedback					Informal consultation												
Readiness, Market Guidelines and Training																	
AEMO																	
Stakeholder engagement (market readiness matters)								Informal consultation									
Participant training										Preparation	Training						
Industry guides												Preparation		Publication			
Fully Integrated Market Start																	
Capacity Trading Platform, Day-Ahead Auction and Reporting Framework																Go-Live	



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



While work is being carried out on the development of the legal and regulatory framework, AEMO will be carrying out work on the market systems development and industry readiness work streams to enable the capacity trading platform and day-ahead auction to commence on 1 March 2019.

While not shown in Figure 1.1, work will also be carried out by AEMO in 2019 on the harmonisation related reforms, which will come into effect on 1 October 2019.

1.4 Consultation on the NGL, Regulations, NGR and Code

Implementing the capacity trading reforms will, as noted above, require the Energy Council to agree to a package of legislative and regulatory measures, which will include:

- changes to the **NGL**;
- changes to the **Regulations**;
- changes to the **NGR**, which will include:
 - changes to Part 15A (Registered Participants), Part 15B (Procedures), Part 18 (Natural Gas Services Bulletin Board) and Part 22 (Gas Trading Exchange); and
 - the insertion of three new parts into the NGR (i.e. Part 24 (Facilitating Capacity Trades and the Capacity Auction), Part 25 (Capacity Auctions) and Part 26 (Standard Market Timetable)) and a number of transitional rules; and
- the development of a new instrument, the **Code**.

A copy of the draft package of legislative and regulatory changes (draft package) can be found in **Attachment 1** along with an overview of the matters that are expected to be dealt with in the Capacity Transfer and Auction Procedures that will be consulted upon by AEMO at the completion of this consultation process. With the exception of the refinements outlined in section 1.2, the draft package reflects the design of the capacity trading reform package, which was approved by the Energy Council on 24 November 2017 and 3 January 2018. The draft package should therefore be read in conjunction with that approved design.^{8,9}

The GMRG is seeking written feedback on the draft package, the refinements outlined in section 1.2 and other matters set out in this Consultation Paper by **5pm (AEST) on 27 April 2018**. To assist stakeholders, a template has been prepared (see **Attachment 2**) that stakeholders can use to provide their feedback on:

- the new Code and the proposed amendments to the NGL, NGR and Regulations;
- the questions posed in this Consultation Paper, including on the refinements that have been made to some aspects of the reform package; and
- any other issues that they would like to provide feedback on.

⁸ GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017.

⁹ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017.



The GMRG strongly encourages stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question or comment on each provision, but rather address those issues of particular interest or concern.

Stakeholders will have an opportunity to attend a public forum, which will be held in Melbourne on **22 March 2018**. Stakeholders are encouraged to express their interest in attending this forum by emailing enquiries@gmrq.coagenergycouncil.gov.au.

1.5 Next steps

The feedback received through this consultation process will inform the GMRG's final recommendations on the drafting of the required amendments to the NGL, NGR, Regulations and Code, which is expected to be considered by the Energy Council in mid-2018.

If the proposed changes are approved by the Energy Council, the South Australian Minister for Mineral Resources and Energy will progress the NGL changes through SA Parliament and once proclamation occurs, the Minister will make the initial Code and amendments to the NGR. As noted in section 1.3, this is currently scheduled to occur in late September or early October. Once this occurs, AEMO will make the Capacity Transfer and Auction Procedures and other subordinate instruments it is responsible for making and amending.

The table below sets out the key dates for the development and implementation of the legal and regulatory framework, including the proposed dates for consultation on the subordinate instruments for which AEMO is responsible.

Table 1.1: Indicative dates for development and implementation of legal and regulatory framework

Date	Responsibility	Process
19 -March 2018 - 27 April 2018	GMRG	Stakeholder consultation on the draft NGL, NGR, Regulations and Code
27 April 2018 – 14 May 2018	AEMO	Consultation on the draft Capacity Transfer and Auction Procedures, the Auction Agreement, Exchange Agreement and other AEMO made procedures
June – July 2018	GMRG	New Code and amended NGL, NGR and Regulations considered by the Energy Council
July – October 2018	SA Minister	Amendments to the NGL progressed through SA Parliament and once NGL changes proclaimed, the SA Minister can make the initial Rules, Regulations and Code
14 August 2018 – 25 September 2018	AEMO	Consultation on the final draft of the Capacity Transfer and Auction Procedures, the Auction Agreement, changes to the Exchange Agreement and other AEMO made Procedures
October 2018	AEMO	Capacity Transfer and Auction Procedures, the Auction Agreement, Exchange Agreement and other Procedures made by AEMO
On or before 1 April 2019	AEMO	AEMO to publish information on the arrangements for transition to the standard gas day in each gas market and to update relevant Procedures.



1.6 Structure of this Consultation Paper

The remainder of this Consultation Paper is structured as follows:

- Chapter 2 provides further detail on the capacity trading reform package and how trade is expected to occur once the reform package is implemented;
- Chapter 3 provides an overview of the legal and regulatory framework and the governance arrangements that will underpin the capacity trading reform package;
- Chapters 4-8 outline the proposed legal and regulatory framework that will give effect to each element of the reform package, with:
 - Chapter 4 focusing on the standardised operational transportation service agreement and other measures to facilitate capacity trading and the day-ahead auction;
 - Chapter 5 focusing on the day-ahead auction;
 - Chapter 6 focusing on the capacity trading platform;
 - Chapter 7 focusing on the reporting framework for secondary capacity trades and other transparency measures; and
 - Chapter 8 focusing on the harmonisation related reforms;
- Chapter 9 provides a summary of the key timings for the commencement of reform measures; and
- Appendix A provides a summary of the provisions in the NGL and the NGR that the GMRG proposes to classify as civil penalty and/or conduct provisions.

The draft package of legislative and regulatory changes and an overview of the matters that are expected to be dealt with in the Capacity Transfer and Auction Procedures is contained in Attachment 1. A separate attachment has also been prepared, which contains a template that the GMRG encourages stakeholders to use to provide their feedback (Attachment 2).

To aid the review of the draft package, a list of the key terms used in the legal and regulatory framework has been prepared, which can be found on page iv. For the purposes of this consultation paper, the following terminology is used:

- the term ‘service provider’ is used interchangeably with ‘transportation service provider’;
- the term ‘shipper’ is used to refer to an existing or prospective primary shipper and/or secondary shipper (as appropriate) and is used interchangeably with ‘transportation facility user’; and
- the following terms are used to refer to particular categories of ‘facility operator’:
 - ‘auction facility operator’ is used to refer to a facility operator under Part 25 of the National Gas Rules (NGR);
 - ‘facility operator’ is used to refer to a facility operator under Part 26 of the NGR; and
 - ‘NT facility operator’ is used to refer to the transportation service provider for a transportation facility located in the Northern Territory.



2. Capacity trading reform package

The capacity trading reform package was recommended by the AEMC in the *East Coast Review* and endorsed by the Energy Council at its 14 August 2016 meeting. The objective of this reform package is to improve the efficiency with which transportation capacity is allocated and utilised on contract carriage transmission pipelines and to foster the development of a more liquid market for secondary capacity.¹⁰ The remainder of this chapter provides further detail on:

- the key elements of the capacity trading reform package; and
- how shippers will be able to procure capacity once the capacity trading reform package is implemented.

2.1 Key elements of the reform package

The capacity trading reform package that the Energy Council has agreed to implement provides for:

- **A capacity trading platform** that will form part of the GSH and enable shippers to trade secondary capacity prior to the close of trade of day-ahead products on gas day D-1 (i.e. the day before gas is due to be transported), using either:
 - the exchange component, which will enable standardised firm forward haul services, park (storage) services and stand-alone compression services to be traded through either:
 - the screen trade service, which allows participants to place bids or offers for standardised products that are automatically matched and will operate on a fully anonymous basis, with AEMO informing the service provider of the trade and the service provider then confirming and giving effect to the trade; or
 - the pre-matched trade service, which allows participants to bring a bilateral trade in one of the listed products to the exchange for settlement; or
 - a listing service that shippers can use to list other products and imbalance trades.

To maximise the pool of prospective buyers and sellers of capacity, the trading platform will operate under the zonal model. Under this model, primary shippers will be able to sell their point-to-point capacity on a zone-to-zone basis and secondary shippers will be able to acquire capacity on the same zonal basis and have secondary firm rights at all receipt and delivery points within a zone (i.e. secondary shippers' rights will be subordinate to primary shippers with firm rights at those points).¹¹

- **A day-ahead auction** of contracted but un-nominated capacity on non-exempt transportation facilities that will be conducted by AEMO shortly after nomination cut-off

¹⁰ AEMC, Stage 2 Final Report: East Coast Review, 23 May 2016, pp. 67, 73 and 83.

¹¹ The secondary firm rights concept is required under the zonal model, because:

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

To deal with these limitations of the zonal model, while also recognising the firm rights that primary shippers have to use receipt and delivery points, the secondary firm rights concept allows secondary shippers to use any receipt or delivery points within a zone but their rights at those points are subordinate to primary shippers with firm rights at those points.



and subject to a reserve price of zero. The day-ahead auction will take the form of a partial combinatorial auction, which will enable shippers to procure services across multiple pipelines and compression facilities, irrespective of location or transportation facility ownership. The services shippers will be able to procure through the auction include forward haul services (with services in both directions on bi-directional pipelines), backhaul services on single direction pipelines (or parts of pipelines) and stand-alone compression services (see Chapter 5 for more detail on service priority).

The auction is expected to improve the efficiency with which short-term transportation capacity is allocated and used, by making contracted but un-nominated capacity available on a daily basis to shippers that value it most. The auction is expected to achieve this objective by:¹²

- improving the incentives that firm capacity holders have to release any spare capacity they may have prior to nomination cut-off time because:
 - there will be no benefit in trying to withhold capacity from others that may value it more when it will be automatically released through the auction; and
 - firm capacity holders will miss out on the proceeds of the sale if the capacity is released in the auction rather than being sold prior to nomination cut-off, because the auction proceeds will be paid to service providers; and
 - limiting the ability of service providers to price short-term capacity products above the levels that would be expected in a workably competitive market.
- **A number of measures to facilitate capacity trading and the auction**, including:
- a requirement for all trades conducted through the exchange and day-ahead auction to be given effect through an operational transfer and for the seller in a bilateral trade to offer the buyer the option of using an operational transfer;
 - a requirement for non-exempt service providers to publish and to offer to enter into a standard operational agreement with prospective secondary shippers, which will establish the standard contract terms between service providers and shippers for capacity procured through the trading platform, auction and bilaterally; and
 - a requirement for service providers to:
 - amend existing facility agreements if requested by shippers to remove contractual limitations on capacity trading in primary GTAs and operational transportation service agreements; and
 - comply with provisions in the NGR that will set out how they are to deal with any request to change receipt and delivery points.
- **A standard market timetable**, which will provide for:
- a harmonised gas day start time of 6 am (AEST) for production, transportation and gas storage facilities and the facilitated markets; and
 - a common nomination cut-off time of 3 pm (AEST) for transportation facilities that are subject to the capacity trading reforms.

¹² AEMC, Stage 2 Final Report: East Coast Review, 23 May 2016, pp. 69 and 73.



- **A reporting framework** for secondary capacity trades that will provide for the publication of the price and other related information on secondary trades on the Bulletin Board. Information on the outcome of the auction will also be required to be published by AEMO on the Bulletin Board.

It is worth noting in this context that while shippers will only be able to procure standardised products through the exchange and the day-ahead auction, they will be able to negotiate with service providers to obtain additional services to complement these standardised products. A shipper could, for example, negotiate with service providers to obtain additional hourly flexibility, enhanced imbalance services, authorised overrun services or in-pipe trade services.

Exemptions

With the exception of the harmonised gas day start times and nomination cut-off times, the capacity trading reforms are only intended to apply to transmission pipelines and stand-alone compression facilities that are outside the DWGM. Automatic exemptions will therefore be available to:

- distribution pipelines;
- the DTS; and
- compression facilities that are not used to transport gas between a transmission pipeline operating at lower pressure and a transmission pipeline operating at a higher pressure to facilitate the flow of gas between points on these different pipelines.

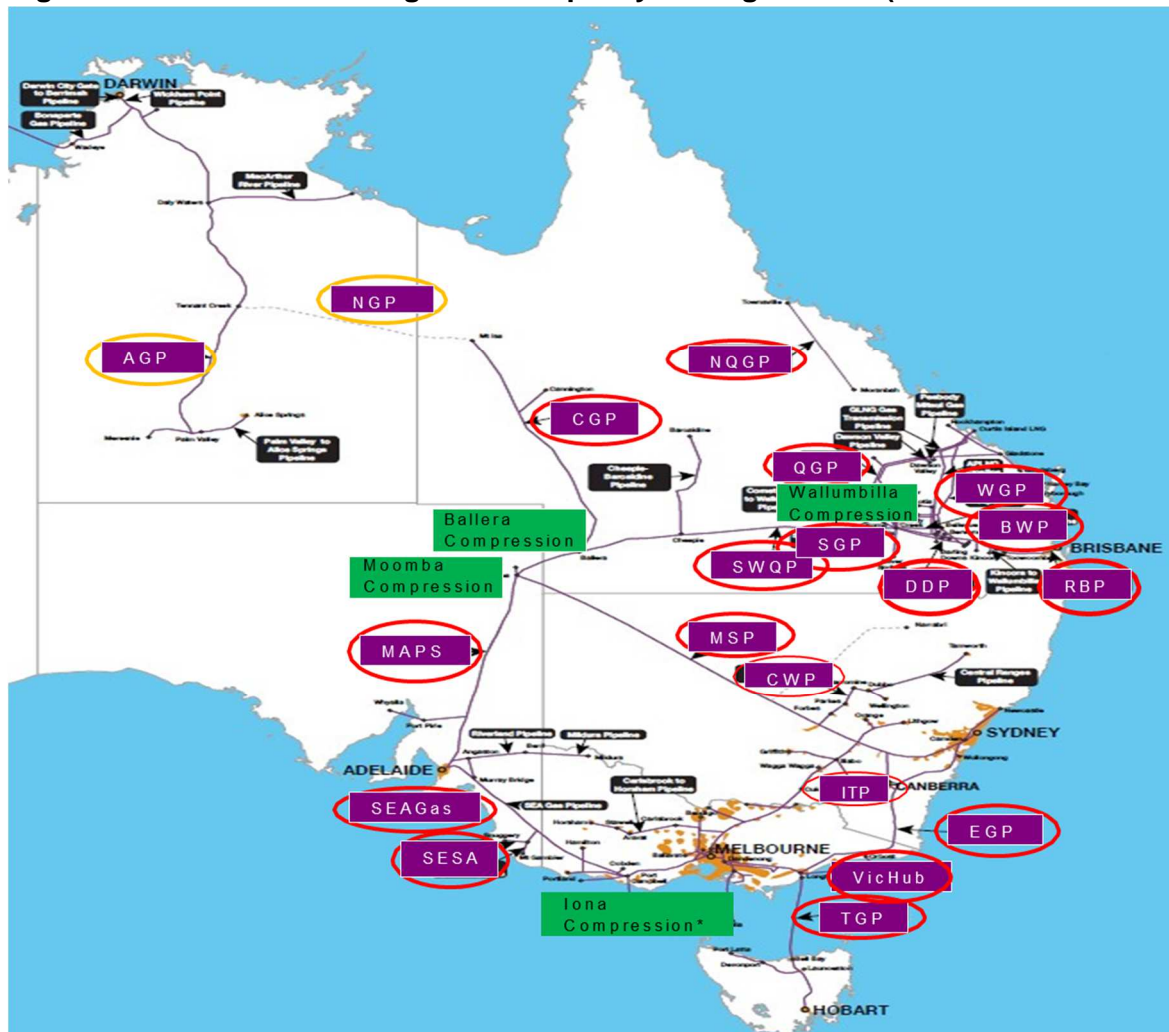
Exemptions from the obligation to publish a standard operational agreement and to be subject to the day-ahead auction will also be available to transportation facilities that:

- are not providing third party access;
- have a nameplate capacity rating less than 10 TJ/day; or
- are servicing a single shipper.

Transportation facilities that meet any of these criteria will need to apply to the AER for an exemption. While exemptions from the obligation to publish a standard operational agreement will be available to single user facilities and facilities with a nameplate capacity rating of less than 10 TJ/day, the service providers for these facilities will still be required to develop and offer to enter into such an agreement if a prospective user requests it.

Figure 2.1 provides an indication of pipelines and compression facilities that could be subject to the reforms. The final list of facilities will, however, depend on the application of the exemption framework.

Figure 2.1: Indicative coverage of the capacity trading reforms (excl. harmonisation)



Map source: AEMC.

Note: A decision is yet to be made on whether the Northern Territory will be subject to the reforms, which is why these pipelines are circled in yellow. Note also that further work needs to be carried out to determine whether the Iona compression facility is to be included.

2.2 How capacity can be procured under the new framework

Once the reform package is implemented, shippers that want to procure secondary capacity on:¹³

- for the next gas day prior to nomination cut-off time or for longer periods will be able to do so using either the exchange (i.e. the screen trade or pre-matched trade service) for standardised services or the listing service for more bespoke services, prior to market close; or
- a day-ahead basis after nomination cut-off time will be able to do so using the day-ahead auction if there is any contracted but un-nominated capacity available.

The way in which secondary capacity will be released through these mechanisms is depicted in Figure 2.2.

¹³ Shippers will also be able to use other means to identify potential counterparties and enter into bilateral trades.

Figure 2.2: How capacity will be released through the capacity trading platform and auction and contractual arrangements

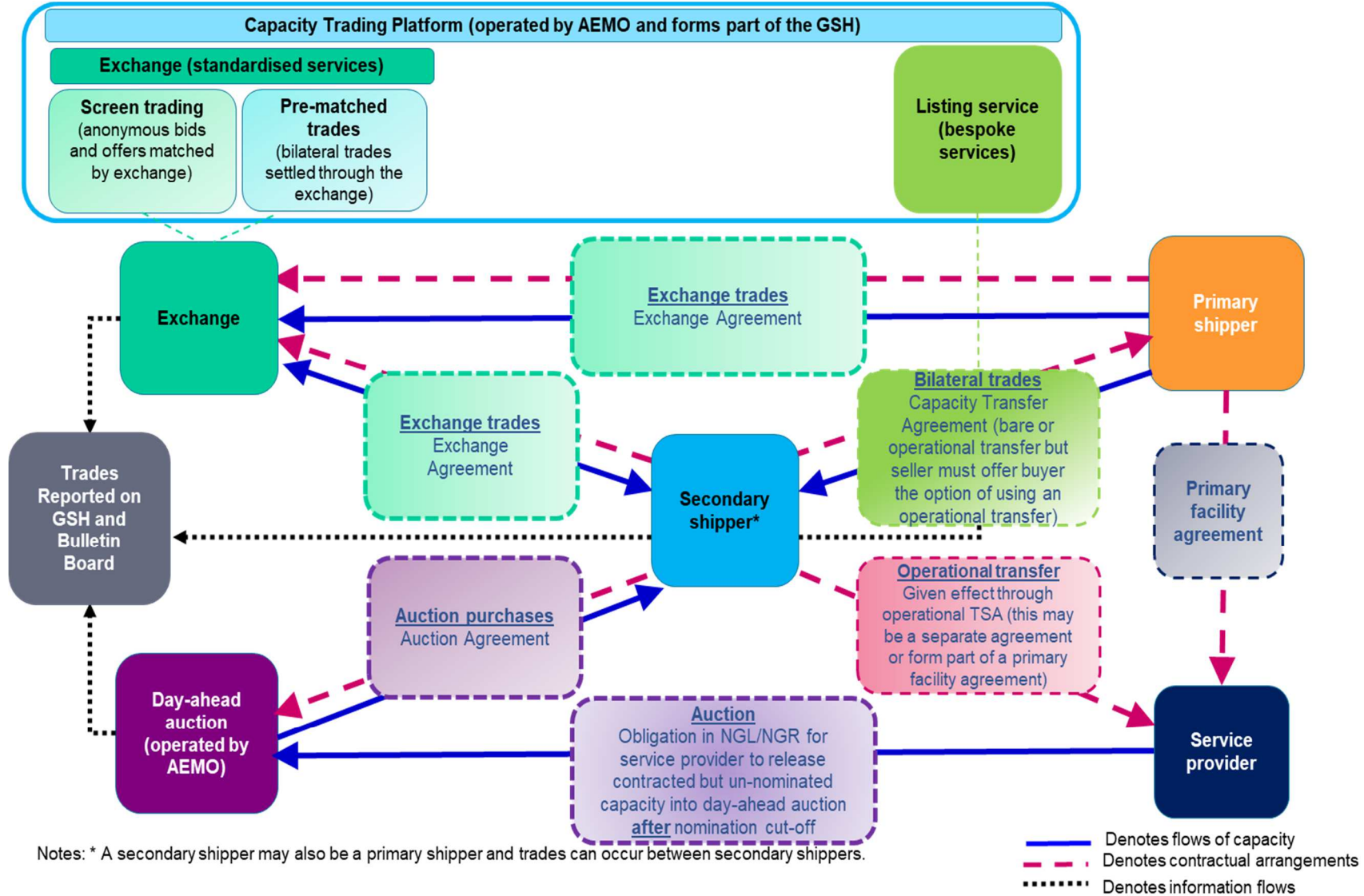


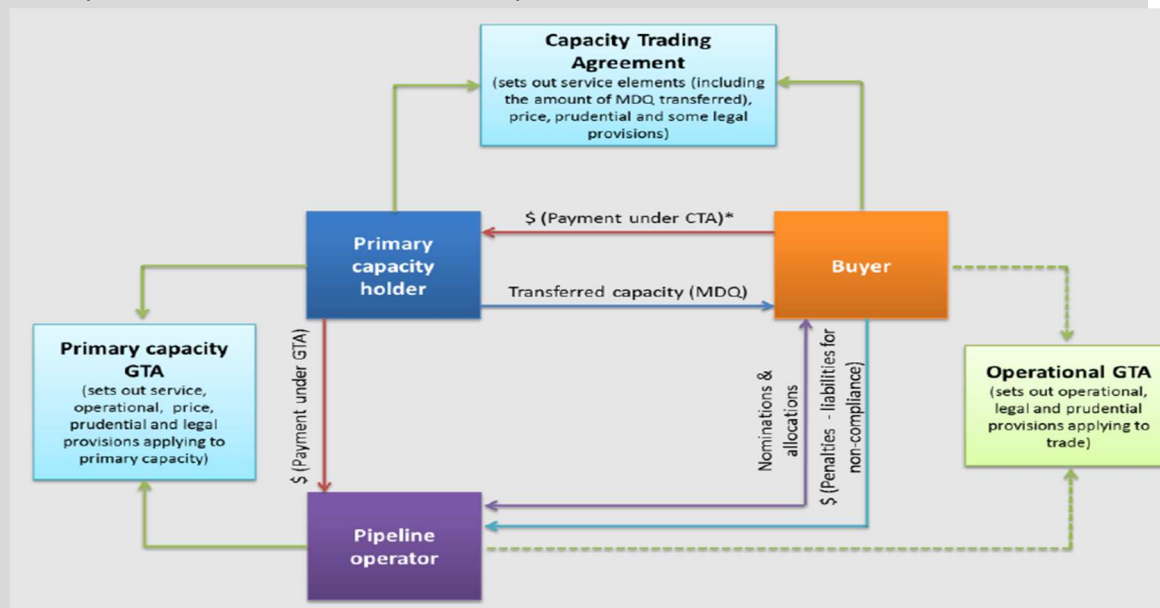
Figure 2.2 also shows the contractual arrangements that shippers will need to have in place with:

- AEMO to trade capacity on the trading platform (**Exchange Agreement**) and to use the day-ahead auction (**Auction Agreement**); and
- service providers to enable any capacity procured through these mechanisms to be used by way of an operational transfer (see **Box 2.1**) (**operational transportation service agreement or operational TSA**).

Box 2.1: Operational transfers

Under an operational transfer, the price, prudential and other legal provisions relating to a sale of capacity are set out in the secondary CTA, Exchange Agreement or Auction Agreement entered into by the shippers, while the operational terms are set out in the operational TSA entered into between the service provider and secondary shipper. The key difference between this transfer mechanism and a bare transfer is that the secondary shipper is responsible for making nominations directly to the service provider and complying with the operational and legal obligations in the operational TSA it has entered into with the service provider in relation to the capacity that has been purchased.

The diagram below sets out how an operational transfer works. Note that in this diagram, the term operational GTA is used rather than operational TSA.



Source: AEMC, Stage 2 Final Report: *East Coast Review*, 23 May 2016, pp. 99-100 and Pipeline Access Discussion Paper, 3 March 2016, pp. 18-19.

Table 2.1 provides more detail on the contractual arrangements shippers will need to have in place to use the day-ahead auction and capacity trading platform. Trades conducted through the exchange and day-ahead auction will utilise the existing GSH settlement, prudential and reporting frameworks, which means participants will receive one settlement statement for all traded products and be able to aggregate prudential requirements across gas, secondary capacity and auction products.



Table 2.1: Arrangements shippers require for capacity trading platform and auction

Participation in the day-ahead auction	
Membership and contractual obligations	Shippers that want to participate in the day-ahead auction will execute an Auction Agreement with AEMO. The Auction Agreement will set out the terms of participation in the auction, including the prudential and settlement obligations.
Participation in the capacity trading platform	
Membership and contractual obligations	Primary and secondary shippers that want to use the capacity trading platform will need to become members of the GSH by executing a Membership Agreement with AEMO and be registered as trading participants. Through the Membership Agreement, shippers will become a party to the Exchange Agreement. The Exchange Agreement is a multilateral agreement that sets out the terms of participation in the GSH and the terms governing transactions entered into through the exchange. The body of this agreement contains the trading, delivery, prudential and settlement obligations, while the product specifications are set out in schedules.
Use of secondary capacity procured through the trading platform or auction	
Operational transfers	<p>If a shipper procures secondary capacity through the exchange or day-ahead auction, the trade will be given effect through an operational transfer. Secondary shippers will also have the option to utilise an operational transfer if they enter into a bilateral trade identified through the listing service or other means. A secondary shipper will therefore need to have entered into an operational TSA with the service provider (this may take the form of a stand-alone agreement or may form part of a shipper's primary facility agreement).</p> <p>Operational TSAs, which are sometimes referred to as 'zero MDQ' contracts, operate like a master agreement between the service provider and secondary shipper, with the operational capacity (measured on a Maximum Daily Quantity (MDQ) basis) set at zero until the shipper purchases capacity. The operational TSA sets out the terms on which the service provider will provide transportation services to the secondary shipper when the shipper has bought secondary capacity via an operational transfer, including the operational, prudential and other terms governing the relationship between the service provider and secondary shipper.</p> <p>If capacity is purchased, then the MDQ in the shipper's operational TSA will be increased for the duration of the trade and the shipper will be entitled to make nominations directly to the service provider and liable to pay the service provider for any specified charges (i.e. imbalance or overrun charges) set out in the operational TSA. The primary shipper, on the other hand, will remain liable to pay the service provider for the capacity sold to the secondary shipper.</p> <p>While the term 'transfer' in operational transfer implies that capacity is being transferred from one shipper to another, this will not occur in relation to the day-ahead auction. In the day-ahead auction, any contracted but un-nominated capacity sold in the auction will be allocated to the auction winners, but there will not be a corresponding reduction in the holdings of primary shippers that have contracted but un-nominated capacity.</p>
Allocation agreements	If a secondary shipper procures capacity through the exchange or day-ahead auction and wants to use a multi-user receipt or delivery point, it may need to become a party to any allocation agreement at that point(s). This agreement sets out the rules the allocation agent is required to use to allocate gas between shippers at the receipt or delivery point.
Other services and arrangements	<p>In some cases, a secondary shipper may also require:</p> <ul style="list-style-type: none"> ▪ access to other transportation related services that are not available on the exchange or through the auction (for example, in some locations a shipper will require redirection services and compression services or may want additional hourly or imbalance flexibility than what is provided for in the standard services) and will need to enter into arrangements with the relevant service provider for the provision of those services; and ▪ access to a receipt or delivery point that is controlled by a third party and will need to enter into arrangements with that party to ensure they can utilise those points.



3. Legal and regulatory framework

Implementing the capacity trading reforms will require Energy Council approval for a package of legislative and regulatory measures that will include:

- changes to the **NGL**;
- changes to the **Regulations**;
- changes to the **NGR**; and
- a new instrument, the **Code**.

AEMO will then need to:

- make the Capacity Transfer and Auction Procedures, which will be directed at the effective operation and administration of the capacity auction and transaction support arrangements;
- make the Auction Agreement, which will be entered into by AEMO and auction participants and set out the terms of participation in the auction; and
- amend the Exchange Agreement and various other Procedures.

The remainder of this chapter provides a brief overview of the changes to be made to the NGL, Regulations and NGR and the making of the Code, the governance arrangements that will apply to these instruments and the new functions and powers that the AEMC, AEMO and the AER will have once the reforms are implemented.

3.1 Legal instruments

NGL: Changes to the NGL are required to:

- extend the subject matter of the NGR to include provisions relating to the capacity trading reform package;
- set out the new functions and powers of AEMO and the AER;
- allow AEMO to make the Capacity Transfer and Auction Procedures;
- specify the obligations that transportation service providers ('service providers') and other market participants will be subject to under the NGL to support capacity trading; and
- establish the legal framework for various aspects of the capacity trading reform package (e.g. the day-ahead auction, the Code and the harmonisation of gas day start times and nomination cut-off times).

Regulations: Changes to the Regulations are required to specify the NGL and NGR provisions that will be civil penalty and/or conduct provisions and extend the operation of the liability caps to the new arrangements in the NGL.

NGR: Changes to the NGR are required to:

- amend some existing parts of the NGR, including:
 - Part 15A (Registered Participants) – changes to this part of the NGR are required to provide AEMO with some flexibility about how it will recover the capacity trading and auction related costs;



- Part 15B (Procedures) – changes are required to set out the matters that the Capacity Transfer and Auction Procedures can address. The list of matters will be consequential to the Procedures-related changes proposed in other parts of the NGR and NGL, so the proposed amendments to this part are not being separately consulted upon;
- Part 18 (Natural Gas Services Bulletin Board) – changes are required to give effect to aspects of the secondary capacity reporting framework and a number of other transparency measures, including those relating to allocation agreements; and
- Part 22 (Gas Trading Exchange) – changes are required to give effect to some of the proposed features of the capacity trading platform, which will form part of the GSH;
- insert the following new parts into the NGR:
 - Part 24 (Facilitating Capacity Trades and the Capacity Auction) – this part of the NGR gives effect to the standardisation related reforms (including providing for the Code) and a number of other measures to facilitate secondary capacity trading and the day-ahead auction;
 - Part 25 (Capacity Auctions) – this part of the NGR sets out the rules pertaining to the day-ahead auction; and
 - Part 26 (Standard Market Timetable) – this part of the NGR sets out the rules relating to the harmonisation of gas day and nomination cut-off times; and
- specify a number of transitional rules in Schedule 5 of the NGR.

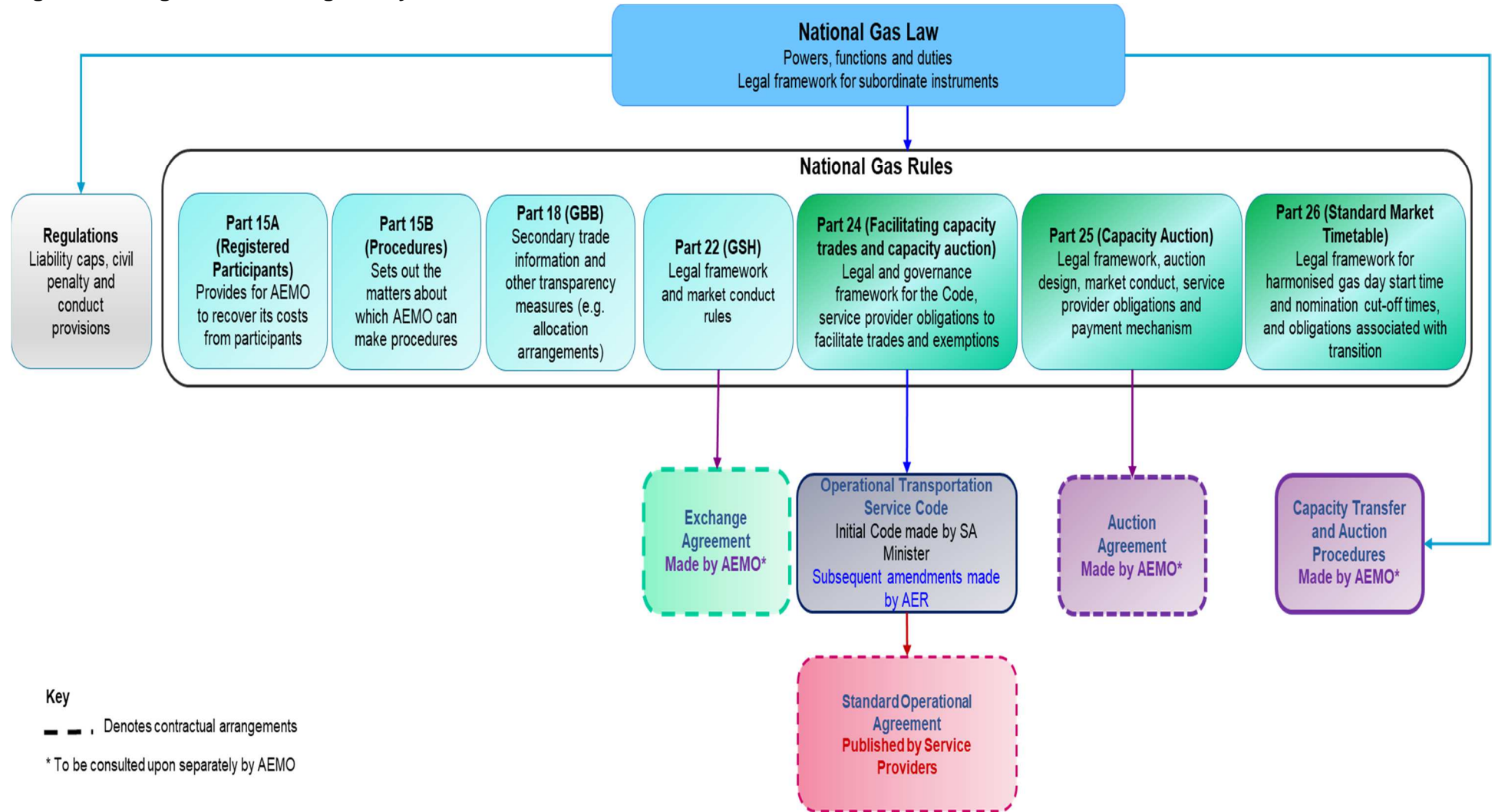
Code: The **Code** is a new instrument that will govern the content of standard form operational transportation service agreements (“standard operational agreements”) and will contain:

- a description of each standard operational transportation service;
- the standard terms and conditions for the provision and use of standard operational transportation services that will apply to all transportation facilities;
- a description of, and the requirements for, facility specific terms associated with the provision and use of standard operational transportation services, which may differ across facilities; and
- a form of agreement for execution by the parties.

Figure 3.1 illustrates the relationships between these instruments and identifies the key instruments AEMO will be responsible for developing, which will be consulted upon separately.



Figure 3.1: Legislative and regulatory instruments





3.2 Governance of the legal instruments

The NGL is set out in the schedule to the *National Gas (South Australia) Act 2008* (SA) and applies in each participating jurisdiction (other than WA) under application legislation of each jurisdiction. WA has its own versions of the NGL and Rules under the *National Gas Access (WA) Act 2009*. The proposed amendments to the NGL and the Regulations will be made through legislation and regulations enacted or made in South Australia once approved by the Energy Council. The proposed amendments to the NGL give the South Australian Minister the power to make the initial Rules (i.e. in Parts 24-26), amend existing Rules (i.e. in Parts 15A, 15B, 18 and 22), remake the earlier AEMC rules dealing with gas day harmonisation to bring the start date forward and make the initial Code.

Once the changes to these legal and regulatory instruments are made, in the future the usual change mechanisms will apply, with:

- the Energy Council responsible for changes to the NGL and Regulations;
- the AEMC responsible for changes to the NGR;
- AEMO responsible for making changes to Procedures, the Exchange Agreement and the Auction Agreement; and
- the AER responsible for developing and amending any guides or guidelines specified in the NGR.

The AER will also become responsible for approving any changes to the Code, which will be subject to a new governance model that provides for:

- an industry panel (the **OTS Code Panel**) chaired by AEMO that will be accorded responsibility for considering proposed changes to the Code and making recommendations to the AER on whether the changes should be accepted, rejected or accepted in a modified form and any transitional arrangements required;
- the AER to decide whether to approve changes to the Code and, in doing so, to have regard to, but not be bound by, the OTS Code Panel's recommendation, the objective of the Code and other principles specified in Part 24 NGR; and
- the AER to make changes to the Code on its own initiative, subject to consultation.

3.3 New functions and powers for the AEMC, AEMO and the AER

The capacity trading reform package will result in a number of changes to the functions and powers of the AEMC, AEMO and the AER, which are summarised in Table 3.1. Further information on the functions and powers of the energy market bodies associated with each element of the reform package is provided in Chapters 4-8.

Table 3.1: Changes in functions and powers

Market Body	New functions and powers
AEMC	The AEMC's rule making functions and powers will be expanded to allow it make rules with respect to the matters being introduced by the reform package. This is reflected in the proposed amendments to section 74 and Schedule 1 of the NGL.
AEMO	<p>AEMO's functions and powers, as specified in the proposed amendments to the NGL and NGR, will be expanded to allow it to:</p> <ul style="list-style-type: none"> ▪ establish, operate and administer the auction in accordance with the NGL and principles set out in the NGR; ▪ make and administer auction agreements and make, amend or revoke procedures; ▪ make and amend the Capacity Transfer and Auction Procedures, governing the operation and administration of the auction and the arrangements to facilitate the transfer of capacity procured through the day-ahead auction or trading platform (e.g. by notifying service providers of the transactions and other information to aid the transfer of capacity (e.g. receipt and delivery point information and contract reference numbers; ▪ determine the zones that will be used for the capacity trading platform, day-ahead auction and secondary trading reporting framework and the locations between which backhaul auction services will be available; ▪ maintain a register of non-exempt service providers and facilities each of which will also be an auction facility; ▪ establish and chair the OTS Code Panel and provide secretariat services to the Panel; ▪ use the Bulletin Board as the capacity trade reporting system used by shippers to report secondary capacity trades; ▪ report capacity trading and auction information in its capacity as operator of the GSH and capacity auction; ▪ publish information about the arrangements for transitioning to the standard gas days in each market; ▪ develop, maintain and publish a guide for service providers about the process and timing for registration under Part 24 and the consideration and approval of zones, compression service points and pipeline segments; and ▪ recover the costs associated with establishing, operating and administering the capacity trading platform, the day-ahead auction and the Capacity Transfer and Auction Procedures.

Market Body	New functions and powers
AER	<p>The AER's functions in the NGL have been expanded to include making and amending the Code in accordance with the NGR.</p> <p>The AER will continue to have its usual monitoring and enforcement roles under the NGL, NGR and procedures. Material new areas for compliance monitoring and enforcement include monitoring the compliance of:</p> <ul style="list-style-type: none"> ▪ non-exempt service providers with: <ul style="list-style-type: none"> – the obligations to publish standard operational agreements and to offer to enter into such agreements in Part 24 of the NGR; – the obligation for the content of the standard operational agreements to comply with the requirements of the Code and Part 24 of the NGR; – the cost recovery principles in Part 24 of the NGR; and – new reporting obligations for the Bulletin Board in Part 18 of the NGR and day-ahead auction in Part 25 of the NGR. ▪ shippers with the nomination and renomination obligations in the NGR and other market conduct rules applicable to the day-ahead auction in Part 25 of the NGR; ▪ sellers of secondary capacity in bilateral trades to offer buyers the option of using an operational transfer in section 228I of the NGL; ▪ shippers with new secondary trading reporting obligations in Part 18 of the NGR; and ▪ allocation agents with the new Bulletin Board reporting obligations in Part 18 of the NGR. <p>Part 24 of the NGR also accords the AER responsibility for granting exemptions from the obligations to publish a standard operational agreement and from the day-ahead auction, while Part 25 requires the AER to develop a guideline that sets out:</p> <ul style="list-style-type: none"> ▪ the information to be reported by auction facility operators in relation to nomination and scheduling records and the manner in which they are to be made and kept; and ▪ the information to be recorded by shippers when making a material renomination.



3.4 Questions for stakeholders

Stakeholders are encouraged to review and comment on all aspects of the draft NGL, Regulations and NGR, including identifying any areas that they believe an appropriate balance has not been struck between the legislative instruments.

Stakeholders are also asked to consider the questions in Box 3.1 and set out in Chapters 4-9 in providing their feedback.

Box 3.1: Questions on the overall legal and regulatory framework

1. Do you believe the proposed amendments to the NGL, Regulations and NGR implement the design of the capacity trading reforms effectively? If not, why?
2. Do the market bodies have adequate powers to do what they need to do to facilitate the outcomes sought by the reforms?
3. Do you agree with the GMRG's recommendation with regard to which rules are classified as civil penalty and/or conduct provisions (see Appendix A)? If not, why?
4. Are there any changes to the NGL, Regulations or NGR that you consider are necessary to ensure parties are unable to game or undermine the intended objective of the reform package?
5. Are any other transitional rules not currently included in Schedule 5 required? If so, what are they and why are they required?



4. Facilitation of Capacity Trades and the Auction

The capacity trading reform package includes a number of measures that are designed to facilitate capacity trading and the day-ahead auction, including, amongst others:

- a framework to facilitate **operational transfers**, which will be used for all trades conducted through the exchange and day-ahead auction and for sellers in bilateral trades to offer buyers the option of using an operational transfer (rather than a bare transfer);
- a requirement for non-exempt service providers to publish and to offer to enter into a **standard operational agreement** with prospective secondary shippers, which will establish the standard contract terms for use of capacity procured through the trading platform, auction or bilaterally on an operational transfer basis;
- a requirement for service providers to give effect to operational transfers and to comply with the **transaction support arrangements** set out in the Capacity Transfer and Auction Procedures, which will underpin the capacity trading platform and auction;
- **measures to overcome contractual limitations on capacity trading**, which include a requirement for service providers to:
 - amend facility agreements if requested by the shipper to enable the shipper to sell its capacity through an operational TSA; and
 - comply with receipt and delivery point change process set out in the NGR; and
- the use of **zones** in the capacity trading platform, the day-ahead auction and the secondary capacity reporting framework.

Together these measures are intended to:

- support the operation of the capacity trading platform, the day-ahead auction and bilateral trading of capacity;
- provide for access to operational transportation services on reasonable terms, which is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market; and
- reduce barriers to secondary trading.

To implement these measures, a number of amendments will need to be made to the NGL, the NGR and the Regulations. The Code, which together with the NGR will govern the content of standard operational agreements, will also need to be made.

AEMO will also need to develop the Capacity Transfer and Auction Procedures, which amongst other things, will provide more detail on:

- the transaction support arrangements that service providers will be required to comply with to facilitate trades conducted through the exchange or the auction;
- the processes and arrangements AEMO will use:
 - to determine the zones to be used in the capacity trading platform and auction;
 - to obtain information on the facility agreements to be used to give effect to operational transfers of capacity procured through the capacity trading platform and/or auction; and



- to provide for operational transfers of capacity procured through the capacity trading platform or auction at a DWGM or STTM interface point; and
- a number of other administrative matters (e.g. registration requirements).

Further detail on the Code and the changes to be made to the NGL, Regulations and NGR is provided in the remainder of this chapter, which commences with an overview of the measures to facilitate trade and the auction that the Energy Council approved in November 2017 and the refinements that have subsequently been made on which the GMRG is seeking feedback.

4.1 Overview of measures to facilitate trades and the auction

Table 4.1 provides an overview of the measures that will be implemented to facilitate capacity trading and the day-ahead auction. With the exception of the refinements identified in the grey shaded rows, these measures are consistent with recommendations that were approved by the Energy Council. The refinements that have been made to the design of the day-ahead auction will require the approval of the Energy Council.



Table 4.1: Measures to facilitate capacity trading and the auction

Design Element	Detail
Operational Transfer	
Contracts to be standardised	<p>An operational transfer is to be used to give effect to capacity purchased through the capacity trading platform, the day-ahead auction and bilateral trades where the buyer elects to use an operational transfer.</p> <p>A bare transfer can be used in bilateral trades, subject to the caveat the seller offers the buyer the option of an operational transfer.</p> <p>The contractual arrangements for operational transfers will be set out in an operational TSA, which may take the form of a stand-alone agreement or form part of a shipper's primary facility agreement.</p>
Standard operational agreements (a standard form operational TSA)	
Service provider obligations	<p>Subject to the exemptions outlined below, service providers will be required to publish a standard operational agreement for each facility they operate and, subject to a number of limitations specified in the NGR, service providers will also be required to offer to enter into a standard operational agreement if requested to do so by a prospective secondary shipper.</p>
Contents of a standard operational agreement and compliance monitoring	<p>The standard operational agreement must incorporate the standard terms in the Code and facility specific terms applicable to the facility. While service providers will have some discretion in relation to the facility specific terms, the terms must:</p> <ul style="list-style-type: none"> be consistent with the Code objective (i.e. to provide for operational transportation services on reasonable terms, which is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market), and the NGR; and give effect to facility specific requirements in the Code and the auction service priority principles in the NGR. <p>Under the NGR, the AER will have the power to assess the compliance of a service provider's standard operational agreement with the NGR and the Code, either of its own volition or in response to a concern raised by a shipper. The AER will also have the power to require changes to the standard operational agreement if it finds the provisions are inconsistent with the Code or the NGR.</p>
Exemptions	<p>Automatic exemptions from the obligation to publish a standard operational agreement will be available to distribution pipelines, the DTS and compression facilities that are not used to transport gas between a transmission pipeline operating at lower pressure and a transmission pipeline operating at a higher pressure to facilitate the flow of gas between points on these different pipelines. Service providers can also seek an exemption from the AER if their transportation facility:</p> <ul style="list-style-type: none"> is not providing third party access; has a nameplate capacity rating less than 10 TJ/day; or is servicing a single shipper. <p>Note that the latter two exemption categories are subject to a condition that if a prospective shipper asks to enter into a standard operational agreement, the service provider must prepare such an agreement within 60 business days of the request and also offer to enter into the agreement.</p> <p>If a facility cannot obtain an exemption or the exemption is revoked, it will be considered a Part 24 facility and subject to the obligation to publish the standard operational agreement and the day-ahead auction (see Chapter 5). It must also register with AEMO.</p>



Design Element	Detail
Service provider costs	<p>Provision will be made in the NGR for service providers to have a reasonable opportunity to recover the incremental costs associated with establishing and maintaining standard operational agreements and the systems and processes required to comply with its obligations under the NGR and the Capacity Transfer and Auction Procedures (jointly referred to as 'standardisation costs'), subject to the caveat that the costs must not be recovered more than once and any auction revenue must be treated as a contribution to cost recovery.</p> <p>The NGR will also require that any charges levied by service providers as far as practicable reflect the outcomes of a workably competitive market; allocate the costs among shippers in a reasonable manner; and provide for the recovery of costs over time in a manner that promotes efficient trade in, and utilisation of, capacity.</p> <p>To impose some discipline on service providers, the AER will have the power to conduct a review of a service provider's charges and require amendments if it finds that they do not comply with the principles in the NGR.</p>
Governance arrangements for the standard operational agreement	<p>The standard operational agreement must comply with the Code, which is a new instrument developed under the NGL/NGR: The objective of the Code and the matters that must be dealt with in the Code will be set out in the NGR. The Code must contain:</p> <ul style="list-style-type: none"> ▪ a description of the standard operational transportation services and the terms and conditions for the provision and use of those services, ▪ a description of, and requirements for, facility specific terms; and ▪ a form of agreement for execution by the parties. <p>A draft Code has been prepared and will be consulted on as part of this process. Once the initial Code is made it will be subject to a hybrid governance model (see section 3.2), which will involve the following:</p> <ul style="list-style-type: none"> ▪ An industry Panel (the OTS Code Panel), chaired by AEMO and comprising two service providers and two shippers (including one large user of gas), will consider changes to the Code and provide their recommendations to the AER on the proposed changes. ▪ Changes recommended by the OTS Code Panel will only take effect if approved by the AER. In deciding whether to approve the changes, the AER must consider the Code objective and a number of other principles and matters specified in the NGR. The AER will have the power to approve, reject and remit the proposed change. It will also have the power to amend the Code on its own initiative.
Measures to overcome contractual limitations on capacity trading	
Amending facility agreements	<p>To ensure that contractual limitations in facility agreements (primary facility agreements and operational TSAs) do not act as a barrier to trade, the NGR will require service providers to provide shippers an amending agreement, within 30 days of a request, that:</p> <ul style="list-style-type: none"> ▪ enables the shipper to sell the capacity the subject of the agreement for use under an operational transportation service agreement; and ▪ gives effect to a number of principles in the NGR that are designed to facilitate capacity trading and the auction.
Receipt and delivery point changes	<p>Provisions will also be included in the NGR to provide shippers and pipeline service providers with greater guidance on:</p> <ul style="list-style-type: none"> ▪ the rights that shippers have to seek a change to their receipt or delivery points (or add a new point) and the circumstances in which a service provider can withhold its consent; ▪ the timeframes within which service providers must respond to a request to change a receipt or delivery point; and ▪ the charges that service providers can levy for receipt or delivery point changes, which must be reasonable.



Design Element	Detail
Transaction support arrangements	
Transaction support arrangements	To facilitate trade conducted through the exchange and the auction, service providers will be required to comply with the transaction support arrangements in the Capacity Transfer and Auction Procedures. Among other things, these arrangements will set out the process, form and timing of the exchanges of information between AEMO and service providers, the validation process and the circumstances in which service providers can decline to give effect to a transfer. Subject to some limitations, service providers will also be required by the NGR (and contractually) to give effect to operational transfers.
Specification of service points, pipeline segments and zones	
Service points and pipeline segments	<p>Non-exempt service providers will be required to propose and have AEMO approve the specification of:</p> <ul style="list-style-type: none"> ▪ each service point (e.g. receipt point, delivery point, notional point, in-pipe trading points) at or between which services are provided; ▪ in the case of a compressor, the composition of compression service points; and ▪ in the case of a pipeline, the pipeline segment (i.e. that part of the pipeline connecting two zones). <p>Once approved, this information will be specified in the Transportation service point register that AEMO will be required to maintain.</p>
Zones	<p>AEMO will be responsible for determining the zones that will be used in the capacity trading platform and the auction. The Capacity Transfer and Auction Procedures will set out the arrangements AEMO will use to assess, consult on and determine the zones, while the NGR will set out the principles AEMO is to employ when making a decision about zones and the obligations that non-exempt service providers will have to assist AEMO. Amongst other things, the proposed principles in the NGR state that when determining whether two or more service points should form part of a zone, AEMO may have regard to:</p> <ul style="list-style-type: none"> ▪ the impact of the proposed grouping of points on trade in auction and exchange products, including the impact on demand or liquidity; and ▪ the ability for transportation capacity to be transferred under the proposed grouping between service points within the zone. <p>The NGR will also require non-exempt service providers to provide AEMO with the information it reasonably requires for the assessment of the proposed zone and to undertake any modelling or assessment of proposed zones required by AEMO.</p> <p>Once the zones are established, AEMO will be required to publish information about the ability to transfer capacity between points within each zone, whether over time, at particular times or in particular conditions and include them in the Transportation service point register.</p>



4.1.1 Exemptions

The GMRG's final recommendations provided for service providers to obtain exemptions from:

- the obligation to publish a standard operational agreement in those cases where the transportation facility does not provide third party access, or is used to service a single end-user facility;¹⁴ and
- the auction in those cases where transportation facility has a nameplate capacity rating less than 10 TJ/day, is not providing third party access, or is servicing a single end-user facility.¹⁵

Following the release of these recommendations, questions have been raised about the lack of alignment between the exemption criteria applying to the obligation to publish a standard operational agreement and participate in the auction, and the lack of alignment with the criteria in Part 23 of the NGR. The GMRG has therefore given further thought to this issue and is now proposing to:

- Apply the same exemption criteria to the obligation to publish and the auction: The GMRG is proposing this change to reduce the complexities of the arrangements.
- Replace the "single end-user facility" criterion with the "single shipper" criterion used in Part 23 of the NGR: The GMRG is proposing this change because if there is only one shipper using the facility and no other shipper is seeking access, there will be no value associated with applying the auction or the obligation to publish, but it will impose costs on the end-users of that facility.
- Retain the 10 TJ/day nameplate capacity threshold rather than adopting the threshold in Part 23 (average daily injections over a two year period are less than 10 TJ/day): The GMRG is proposing to retain the 10 TJ/day nameplate capacity threshold because it is consistent with the threshold that will apply in the Bulletin Board and alignment with the reporting obligations is more important in this case than alignment with Part 23 (i.e. because information published on the Bulletin Board will be important inputs into a shipper's risk assessment).
- Adopt a new definition of the term 'compression facility' in the NGR: The GMRG is proposing this change to ensure the reforms only capture stand-alone compression facilities, such as the Moomba, Wallumbilla, Ballera and Iona facilities, and not integrated compression facilities or compression facilities that are used upstream or for other purposes.

The proposed rules therefore provide for:

(1) Automatic exemptions to be obtained by:

(a) distribution pipelines;

¹⁴ GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017, pp. 43-46.

¹⁵ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017, pp. 100-115.



- (b) the DTS; and
 - (c) compression facilities that are not used to transport gas between transmission pipelines; and
- (2) Transportation facilities to obtain an exemption from the AER if:
- (a) the facility is not providing third party access;
 - (b) the facility has a nameplate capacity rating less than 10 TJ/day; or
 - (c) the facility is servicing a single shipper.

The NGR also provide for the AER to revoke exemptions if circumstances change and these exemption criteria are no longer met. If this occurs, facility operators will become subject to the obligation to publish a standard operational agreement and the auction. Before becoming subject to the auction, facility operators will need to do a range of things (e.g. register with AEMO and put in place any systems that may be required). The NGR therefore provides these facilities four months to carry out these activities.

It is important to note that the single shipper and 10 TJ/day exemptions outlined above only exempt the facilities from the obligation to publish a standard operational agreement and do **not** exempt the facilities from having to offer to enter into such an agreement if requested to do so by a prospective shipper. If such a request is received, the service provider will have 60 business days to develop and offer the standard operational agreement.

The other important point to note about these criteria is that if a prospective shipper approaches a single shipper facility to gain access to secondary capacity, then as soon as such an agreement is entered into, the facility will cease to be a single shipper facility and will no longer qualify for an exemption. In addition to having an obligation to publish a standard operational agreement, the transportation facility would become subject to the auction (assuming it does not meet any of the other exemption criteria).

As outlined above, the GMRG is interested in hearing stakeholders' views on this refined approach to exemptions and has set out a number of specific questions it would like feedback on in the box below.

Box 4.1: Questions on exemptions

6. Having regard to the objectives of the capacity trading reforms and the Energy Council's approval of the GMRG's recommendation on coverage of the auction, do you agree with the proposal to:
 - Apply the same exemption criteria to the obligation to publish a standard operational agreement and the auction? If not, why?
 - Replace the single end-user facility criterion, with a single shipper criterion? If not, why?
7. Do you think the following definition of 'Part 24 compression service facility' will achieve the objective of capturing stand-alone compressors, such as the Moomba, Ballera, Wallumbilla and Iona compression facilities, but excluding other compression facilities (e.g. compression facilities that form part of the pipeline that



Box 4.2: Questions on exemptions

are used to provide an integrated service and upstream compression facilities? If not, please explain what amendments you think need to be made to this definition.

Part 24 compression service facility means a compression service facility that is or may be used to transport natural gas between a transmission pipeline operating at lower pressure and a transmission pipeline operating at higher pressure in order to facilitate the flow of natural gas between two or more receipt or delivery points where the receipt or delivery points are located on different transmission pipelines.

8. Do you agree with the proposal to allow facilities with a nameplate rating less than 10 TJ/day and single shipper facilities, up to 60 business days to develop and offer a standard operational agreement? If not, why?
9. Do you agree with the proposal to allow a single shipper exemption to be revoked if another shipper enters into an operational TSA with the service provider? If not, please explain why.

4.1.2 Governance model for the Code

As outlined in section 3.2, the final recommendations provided for the adoption of a hybrid governance model for the Code. While this governance model has been retained in the legal and regulatory framework, the GMRG has made some refinements to the AER's powers under this governance model. In short, the AER will no longer be limited to approving, rejecting or remitting a recommendation by the OTS Code Panel on changes to the Code. It will also have the power to modify the Code on its own initiative, following consultation.

This refinement has been made to allow the AER, as regulator, to play a more proactive role in overseeing modifications to the Code, where required.

The intention in affording the AER this right is not to circumvent the role that the OTS Code Panel plays in the Code modification process. Rather, the intention is to provide the OTS Code Panel with an additional incentive to work effectively. Importantly, where the AER proposes to modify the Code on its own initiative, it is required to consult with the OTS Code Panel in relation to the modification (unless the modification is non-material, relates to urgent matters or has been consulted on previously). To ensure that the AER has regard to other stakeholder feedback, the AER is also required to consult with other stakeholders and AEMO, unless the above exemptions from consultation apply.

The GMRG considers that this refinement to the AER's role provides an appropriate balance between ensuring that industry, through the OTS Code Panel, has a central role in determining the contents of the Code, and allowing the AER, as regulator, to ensure that the Code is operating as intended and in furtherance of the National Gas Objective (NGO).

The GMRG is interested in obtaining stakeholders' views on this refinement and on the proposed composition and operation of the OTS Code Panel. Some specific questions the GMRG is seeking feedback on are set out in the box below.



Box 4.3: Questions on governance model for the Code

10. Do you agree with the proposal to allow the AER to play a more proactive role in overseeing modifications to the Code? If not, please explain why.
11. Do you agree with the proposed composition of the OTS Code Panel, which will comprise: two service providers, two shippers (one of which must be a large end-user) and AEMO? If not, please explain why and the changes you would suggest be made to the composition of the OTS Code Panel.

4.1.3 Measures to address contractual limitations in facility agreements

In the final recommendations, the GMRG noted that it was difficult to see any legitimate reason for the inclusion of clauses in facility agreements that prevent or otherwise impede the trade of capacity if the shipper selling the capacity remains liable to pay for the capacity it contracted for.¹⁶ Given the potential for such clauses to impede trade and restrict competition in the secondary market, the GMRG recommended that provisions be included in the NGL/NGR to provide for users to transfer some or all of their capacity without the service provider's consent if these conditions are met.¹⁷

In subsequent discussions with stakeholders, it has become clear that service providers would prefer to amend facility agreements on a case-by-case basis to accommodate capacity trading, rather than have terms read into those agreements through the NGL, NGR or Code. The GMRG is therefore proposing to include provisions in the NGR that will require service providers, within 30 days of receiving a request from a shipper in respect of its facility agreement, to give the shipper an amending agreement that:

- Enables the shipper to sell any spare capacity it may have under the agreement through an operational TSA.
- Gives effect to other principles in the NGR that are designed to facilitate capacity trading and the auction, which include a requirement that:
 - the shipper's transportation services be capable of being unbundled (e.g. a service including a stand-alone compression service and pipeline service should be capable of being sold separately);
 - trades be allowed to occur through either the capacity trading platform or bilaterally;
 - the shipper be able to transfer hourly entitlements, imbalance entitlements and other contractual entitlements through a bilateral trade, if the transfer can occur in a manner consistent with the safe and reliable operation of the facility;
 - any provisions regulating the service provider's obligation to give effect to the operational transfer be reasonable;

¹⁶ Further support for this view can be found in the explanatory material that accompanied the original National Third Party Access Code for Natural Gas Pipeline Systems, which noted that the capacity trading provisions in an access arrangement must "comply with a number of principles designed to limit the ability of the Service Provider to restrict competition in the Secondary market by unreasonably limiting the resale of capacity".

¹⁷ GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017, p. 65.



- the shipper not be made liable for the use of any capacity it has sold or for any act or omission by the other shipper; and
- no indemnity or equivalent provision be sought from the shipper on account of any sale of capacity by means of an operational transfer.

The GMRG is also proposing that a provision be included in the NGR that requires any facility agreements entered into after the commencement of these reforms, to allow the shipper to sell capacity under an operational TSA and to give effect to the principles listed above.

The GMRG is interested in hearing stakeholders' views on this approach and has set out a number of questions in the box below.

Box 4.4: Questions on measures to overcome contractual limitations

12. Do you agree with the proposal to use a request and negotiate framework, rather than a standard form agreement model or more prescriptive provisions in the NGR to overcome the limitations on capacity trading in facility agreements? If not, please explain why.
13. Do you think the 30-day period allowed for service providers to respond to a shipper seeking an amending agreement is appropriate? If not, why?
14. Do you agree with the principles that service providers will be required to give effect to when amending the facility agreement in rule 642?
15. Do you agree with the proposal to require service providers to comply with the change in receipt and delivery point provisions in rule 643?
16. Do you agree with the proposal in rule 643(6) to restrict the ability of service providers to make its consent on a receipt or delivery point change conditional on obtaining the consent of a third party but only:
 - (a) where the transportation service provider would be in breach of contract if it gave effect to the request without the consent of the third party; and
 - (b) if the third party is another transportation facility user or an associate of another transportation facility user, the requirement to obtain that person's consent arises under a contractual provision entered into before 3 January 2018.

If not, why?

4.1.4 Governance arrangements for the specification of zones

In the final recommendations, the GMRG noted that the success of the capacity trading platform and the reforms more generally would be critically dependent on the zones that are established for each transportation facility. The GMRG therefore recommended that the development of zones should be guided by the overarching objectives of the capacity



trading reform package and the principle that the bounds of the zones should seek to maximise the pool of prospective buyers and sellers of capacity, subject to:¹⁸

- the need for capacity to be transferred between points within the zone on a one-for-one basis if there is physical capacity at the relevant point;
- any risk that secondary shippers will not be able to access capacity at a receipt or delivery point within the zone being at an acceptable level; and
- the operational and technical requirements necessary for the safe and reliable operation of the pipeline and being able to adapt to future operational changes to the pipeline (i.e. to minimise changes to the zonal definition over time).

The GMRG also recommended that changes to zonal definitions be subject to the same hybrid governance arrangements that will apply to the Code, with the industry-based panel assessing the proposed change before making a recommendation to the AER, who would then be responsible for approving the change.

In subsequent discussions with service providers, concerns were raised about the involvement of an industry-based panel in the specification of zones, with a number noting that the specification of zones was largely an operational matter and should, to the extent possible, be left to service providers. Concerns were also raised about the potential for this process to result in the provision of confidential information on pipeline developments to an industry-based panel. A number of service providers therefore suggested the adoption of an alternative governance framework, under which service providers would propose zones and AEMO would be responsible for approving the zones and carrying out any consultation on the zones.

While the approach proposed by service providers had some initial appeal, it has become clear through the preliminary work carried out by some service providers on zones, that operational considerations may be given greater weight than market considerations under this propose-respond model. While operational constraints are important considerations in defining zones, and, in particular, the ability to understand whether capacity can be transferred on a one-for-one (or approximately one-for-one) basis between points within a zone, the zones are not intended to impact on those operational constraints; rather, the impact of operational constraints in a zone are intended to be assessed and weighed against the benefits to the market in grouping points within a zone.

In some cases, this may result in greater weight being placed on the benefits of the grouping, even though capacity cannot be transferred on a one-for-one basis within the zone, because the benefit of being able to trade with more parties in the zone is perceived to outweigh the commercial risk to shippers in buying capacity on a zonal basis. In other cases, however, the commercial risk may be considered too high and a narrower zonal definition may be adopted.

Given the trade-offs that may be involved in defining the bounds of the zones, the GMRG has given further thought to whether an alternative governance arrangement could be implemented that would result in a more balanced approach to the specification of zones.

¹⁸ GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017, p. 92.



The alternative that the GMRG is proposing, which is reflected in the legal and regulatory framework, accords AEMO responsibility for determining the zones that will be used for the capacity trading platform and auction by type (i.e. receipt zones or delivery zones). In determining the bounds of the zones, AEMO will be required to apply the following principles, which will be set out in the NGR:

- a zone may consist of one service point;
- two or more service points may be grouped in a zone when to do so seems reasonably likely to promote efficient trade in and use of transportation capacity;
- in determining a grouping as provided for in paragraph (b), AEMO may have regard to any matter relevant to that determination including:
 - the impact of the proposed grouping on trade in products offered through the capacity trading platform or the auction including the impact on demand or liquidity; and
 - the ability for transportation capacity to be transferred under the proposed grouping between service points within the zone, whether over time or at particular times or in particular conditions;
- service points used for delivery of gas and receipt of gas must be grouped into zones within their respective categories (i.e. a receipt zone will only contain receipt points and a delivery zone will only contain delivery points);
- a service point cannot be in more than one delivery point zone or receipt point zone (but if the point is used both for delivery and receipt, may be in both a delivery point zone and a receipt point zone); and
- a service point can be in both a delivery point zone and a receipt point zone where a pipeline is bidirectional.

The NGR will also require non-exempt service providers to provide AEMO with the information it reasonably requires for the assessment of the proposed zones and to undertake any modelling or assessment of proposed zones required by AEMO.

Where a zone consists of more than one point, AEMO will require modelling (which the service provider may be asked to provide) to determine the extent to which the grouping may result in a buyer not being able to access the capacity (i.e. because capacity may not be able to be transferred on a one-for-one basis across all points in the zone). AEMO will then consult on a proposed grouping, in accordance with the process set out in the Capacity Transfer and Auction Procedures and seek market participants' views on the risks of not being able to have capacity transferred on a one-for-one basis and to understand whether that risk deters use of a proposed zone.

Once AEMO has made its decision on the specification of zones, it must publish information about the ability to transfer capacity between points within each zone, whether over time, at particular times or in particular conditions.

The GMRG is interested in obtaining stakeholder feedback on this alternative approach and has set out a number of specific questions it would like to obtain feedback on in the box below.



Box 4.5: Questions on the governance arrangements for zones

17. Do you agree with the GMRG's proposed change to the governance arrangements for the specification of zones? If not, please explain why and set out the arrangements that you think should be employed.
18. Do you agree with the specification of the principles that AEMO would be required to have regard to when determining the allocation of service points to zones? If not, please set out why and any amendments you would propose to these principles.
19. Do you agree with the information disclosure obligations that service providers would be subject to under the NGR?
20. Do you think any additional guidance on the specification of zones is required in the NGR?

4.1.5 Other matters

In the discussions the GMRG has had since the final recommendations were made, questions have been raised by a number of stakeholders about whether any additional oversight of the service provider cost recovery arrangements is required to mitigate the risks of:

- 'gold plating' of systems; and
- service providers seeking to recover more than the incremental costs from shippers.

The cost recovery provisions that have been proposed in the NGR currently provide for service providers to have a reasonable opportunity to recover the reasonable **incremental** costs associated with establishing and maintaining:

- the standard operational agreements for its facilities; and
- systems and processes required to comply with its obligations under the NGR and Capacity Transfer and Auction Procedures.

The cost recovery provisions also state that:

- the costs must not be recovered more than once and that any auction revenue received by the facility operator must be treated as a contribution to the recovery of costs; and
- the charges levied by the service providers, must:
 - as far as practicable reflect the outcomes of a workably competitive market;
 - allocate the costs among shippers in a reasonable manner; and
 - provide for the recovery of costs over time in a manner that promotes efficient trade in, and utilisation of, capacity.

Provision has also been made in the NGR for the AER to conduct an *ex post* review of a service provider's charges if it has concerns about their level (or if concerns are raised by an interested party) and to require amendments if it finds that they do not comply with the pricing principles in the NGR. An *ex post* review was proposed in the GMRG's final



recommendations because it was concerned that the costs of requiring an *ex ante* review may outweigh the benefits. Given the questions that have subsequently been raised about this issue, the GMRG is interested in understanding whether stakeholders think the *ex post* approach is still appropriate, or if a greater level of oversight is required and, if so, whether this should take the form of:

- an *ex ante* review process by the AER;
- a requirement for an independent auditor to confirm that the service provider is only seeking to recover the ‘incremental’ costs; or
- another form of review.

Box 4.6: Questions on service provider cost recovery arrangements

21. Do you think the proposed service provider cost recovery arrangements provide sufficient protection against the risk of ‘gold plating’ or ‘cost shifting’? If not, please explain why and identify any other measures you think should be employed.

4.2 Proposed legal and regulatory framework

To implement the reforms set out in this chapter, a number of changes will need to be made to the NGL, the Regulations and the NGR and the Code will also need to be implemented. Further detail on these measures is provided below.

4.2.1 Proposed changes to the NGL

Changes to the NGL are required to expand the functions and powers of the AEMC, the AER and AEMO and will involve:¹⁹

- extending the subject matter of the NGR²⁰ and the scope of the AEMC’s rule making functions²¹
- according the AER the power to make and amend the Code;²²
- amending AEMO’s functions and powers to allow it to:
 - establish, operate and administer transaction support arrangements²³ and conduct relevant trials;²⁴
 - make the Capacity Transfer and Auction Procedures (which will be a form of statutory instrument), set out what those Procedures do, require AEMO and people

¹⁹ Changes to the NGL are also required to give the South Australian Minister for Mineral Resources and Energy the power to make the initial Rules concerning the capacity trading reforms and the Code.

²⁰ See Schedule 1 (Subject matter for the NGR) of the NGL (items 55B and 68C to 68G)

²¹ See sections 74(3)(fb) and 74(1)(a)(iii) of the NGL

²² See section 27(1)(e1) of the NGL.

²³ See section 91A(gc) of the NGL

²⁴ See section 91A(1)(ba) of the NGL.



to whom those Procedures apply to comply with the Procedures, and set out what AEMO is required to do if it suspects the Procedures have been breached;²⁵ and

- disclose protected information if necessary for the proper operation of a capacity auction or the Capacity Transfer and Auction Procedures.²⁶

A new chapter (Chapter 7A Access to operational transportation services) in the NGL is also required to:

- set out certain matters relating to the standard terms for operational transportation services, including:
 - the requirements to publish, update and offer to enter into these agreements;²⁷
 - providing for the NGR to set out exemptions from requirements to publish and offer to enter into those agreements;
 - setting out various matters that the NGR may make provision for in relation to standard operational agreements;²⁸ and
 - confirming that a transportation service provider may enter into an operational TSA that differs from its standard operational agreement;
- set out key matters concerning the Code, including:²⁹
 - providing for the AER to amend and replace the initial and subsequent versions of the Code; and
 - the matters that the Code must, must not and may deal with; and
- address other matters related to operational transportation services that are intended to facilitate capacity trading and the auction, including:³⁰
 - setting out the service requirements that may be specified in the NGR;
 - requiring sellers in bilateral trades to state the terms on which they will arrange for the trade to be conducted using an operational TSA if requested by the buyer; and
 - preventing service providers, shippers and their associates from engaging in conduct that prevents or hinders access to an operational service.

Changes to the NGL are also required to:

- provide for the registration of service providers and their transportation service facilities;³¹ and
- include auction participants and transportation service providers as “Registered participants”, so that provisions concerning payments owing to and from AEMO apply to these parties.³²

²⁵ See Division 2D, Chapter 2, Part 6 of the NGL.

²⁶ See section 91GG of the NGL.

²⁷ See sections 228B(1) and (3), and 228C(1).

²⁸ See Part 1 of Chapter 7A of the NGL.

²⁹ See Part 2 of Chapter 7A of the NGL.

³⁰ See Part 3 of Chapter 7A of the NGL.

³¹ See Division 2E, Chapter 2, Part 6 of the NGL.

³² See section 91H(4) of the NGL.



4.2.2 Proposed changes to the NGR

The proposed changes to the NGR are set out in **Part 24 (Facilitating capacity trade and the capacity auction)**, which is a new part that will be added to the NGR.

Division 2 of Part 24, which sets out the rules relating to the Code, includes provisions that:

- set out the scope and subject matter of the Code, and the principles to be applied when determining standard terms and facility specific terms;³³
- specify the membership categories for the OTS Code Panel;³⁴
- provide for AEMO to establish and chair the OTS Code Panel and to develop, maintain and publish its election procedures and operation manual;³⁵ and
- provide for the AER to make and amend the Code on the advice of the OTS Code Panel or on its own initiative.³⁶

Division 3 of Part 24, which sets out the exemptions and registration framework, contains provisions that:

- set out the registration framework for service providers and transportation facilities;³⁷
- specify the exemptions that will be available for the obligation to publish a standard operational agreement and the auction;³⁸ and
- set out the role the AER is to play in the exemptions framework.³⁹

Division 4 of Part 24 sets out a number of matters that can be included in the Capacity Transfer and Auction Procedures and also provides for:

- service providers to provide AEMO with information on facility agreements and service points;⁴⁰
- AEMO to determine the zones that will be used in the capacity trading platform and auction in accordance with the principles specified in this division;⁴¹ and
- AEMO to develop a transportation service point register, which will set out the service points, pipeline segments and zones used in the capacity trading platform and auction.⁴²

Division 5 of Part 24, which sets out the obligations of service providers in relation to standard operational agreements, which includes provisions that:

³³ See draft rule 596 of the NGR

³⁴ See draft rule 606 of the NGR.

³⁵ See draft rule 599 of the NGR.

³⁶ See draft rule 604 of the NGR.

³⁷ Subdivision 3.2 of Division 3, Part 24 of the NGR.

³⁸ Subdivision 3.1 of Division 3, Part 24 of the NGR.

³⁹ See draft rule 611 of the NGR.

⁴⁰ See draft rules 625 and 626 of the NGR.

⁴¹ See draft rules 627 and 628 of the NGR.

⁴² See draft rule 629 of the NGR.



- require service providers to develop, publish and amend standard operational agreements and, ensure those agreements comply with the Code and the principles in the NGR when making and amending their standard operational agreement;⁴³
- require service providers to offer to enter into standard operational agreements to prospective shippers, and specify the circumstances in which a service provider is not required to offer to enter into such an agreement;⁴⁴
- set out the service provider cost recovery arrangements;⁴⁵ and
- provide for the AER to review the standard operational agreements and the fees charged under these agreements.⁴⁶

Division 6 of Part 24, which sets out a number of other obligations service providers have in relation to facility agreements, includes provisions that:

- require service providers, on request from capacity holders, to offer to amend primary GTAs and operational TSAs to make certain changes accommodating secondary capacity trading;⁴⁷ and
- specify principles to be applied by service providers when responding to requests to change receipt and delivery points.⁴⁸

To deal with some of the transitional issues associated with these measures, a number of transitional rules are included in Schedule 5. These transitional rules:

- prevent any modification to the Code taking effect within 12 months of the amendments to the NGR commencing unless the AER considers that the modification to the Code:
 - is urgently necessary to ensure the proper operation of the capacity auction or the gas trading exchange or the safe and reliable operation of one or more transportation facilities; or
 - is non-material (that is, the modification corrects a minor error in the Code or is unlikely to have a significant financial or operational impact).
- provide the AER the power to grant transitional exemptions from the obligation to publish and offer to enter into standard operational agreements and to participate in the auction (to cover the period after commencement of the Rules between an exemption application being made and the AER making a decision);
- clarify that non-exempt transportation service facilities commissioned on or before Part 24 commences must be registered within 20 business days of the commencement of this Part; and

⁴³ See draft rules 631 to 633 of the NGR.

⁴⁴ See draft rule 637 of the NGR.

⁴⁵ See draft rule 634 of the NGR.

⁴⁶ See draft rule 635 of the NGR.

⁴⁷ See draft rule 640 of the NGR.

⁴⁸ See draft rule 642 of the NGR.



- require AEMO to maintain and publish a register of service points, zones and pipeline segments by 1 December 2018 (or, if amendments to the NGL commence after that date, then 20 business days after the commencement date).

4.2.3 Proposed changes to the Regulations

Changes to the Regulations will be required to specify those provisions in the NGL and NGR that will be classified as civil penalty or conduct provisions, which will be set out in **Schedule 3** and **Schedule 4 of the Regulations**. A list of the provisions in the NGL and NGR that are expected to be classified as civil penalty provisions is provided in Appendix A.

4.2.4 Operational Transportation Services Code

The Code will cover the following matters:

- the form of agreement incorporating the standard terms and the facility specific terms;
- standard terms that must be included in all standard operational agreements, which include:
 - a description of the standard operational transportation services (including auction services); and
 - other terms and conditions described as standard terms in the Code; and
- matters to be included as facility specific terms in the standard operational agreement and the requirements for such terms.

Under the NGR, the Code must, to the extent reasonably practicable, provide for the terms and conditions for the provision of a standard operational transportation service to be specified in the standard terms (in preference to facility specific terms).

5. Day-Ahead Auction

The day-ahead auction of contracted but un-nominated capacity is a key element of the capacity trading reform package and is expected to improve the efficiency with which short-term transportation capacity is allocated and used, by making this capacity available on a daily basis to shippers that value it most. The auction is expected to achieve this objective by:⁴⁹

- improving the incentives that firm capacity holders have to release any spare capacity they may have through secondary trading prior to the auction; and
- limiting the ability of service providers to price short-term capacity products above the levels that would be expected in a workably competitive market.

The auction, which will be operated and administered by AEMO, is also expected to overcome the co-ordination failures that can otherwise be associated with procuring day-ahead capacity.

To implement the day-ahead auction, a number of amendments will need to be made to the NGL, the NGR, the Regulations and a range of other AEMO-made instruments. AEMO will also need to develop the Auction Procedures, which will contain detail on:

- the terms of participation in the auction, including the form of the Auction Agreement, the eligibility criteria for signing an Auction Agreement and prudential requirements;
- matters relating to the conduct of the auction, including information on the methodology used to calculate the auction quantity limits, how the specification of auction products will be determined, the bidding process, the way that auction results will be notified, settlement calculations and how system failures will be dealt with;
- the information to be exchanged with auction facility operators and how the auction results will be given effect; and
- the auction related information that AEMO will publish on the Bulletin Board.

Further detail on the proposed amendments to the NGL, NGR and Regulations is provided in the remainder of this chapter, which commences with an overview of the design of the auction that was approved by the Energy Council in early January and the refinements that have subsequently been made on which the GMRG is seeking feedback.

5.1 Overview of the day-ahead auction

Table 5.1 contains a summary of the key elements of the day-ahead auction, which with the exception of the refinements identified in the grey shaded rows, are consistent with recommendations that were approved by the Energy Council on 3 January 2018. The refinements that have been made to the design of the day-ahead auction will require the approval of the Energy Council. The GMRG is therefore seeking feedback on these refinements and a number of other matters set out below. Further information on the auction design can be found in the *Final Recommendations: Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity*.⁵⁰

⁴⁹ AEMC, Stage 2 Final Report: East Coast Review, 23 May 2016, pp. 69 and 73.

⁵⁰ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017.



Table 5.1: Design of the day-ahead auction

Design Element		Detail
Auction coverage		The exemption criteria for the auction will be the same as they are under Part 24 of the NGR (see Chapter 4). The auction will therefore only apply to transportation facilities with a nameplate capacity of 10 TJ/day and above that are providing third party access and servicing more than one user. Automatic exemptions will also be available to distribution pipelines, the DTS and compression facilities that do not meet the specification in the NGR.
Operation of the auction		<p>AEMO will be responsible for establishing, operating and administering the auction, which will utilise the existing GSH settlement, prudential and reporting frameworks and allow shippers' prudential requirements to be aggregated across gas, secondary capacity and auction products.</p> <p>AEMO will also be responsible for publishing information pre and post-auction. The information to be published will be set out in the Auction Procedures but is expected to include information on:</p> <ul style="list-style-type: none"> the products that will be available in the auction and the auction quantities prior to the auction being conducted; and the results of the auction (e.g. clearing prices, quantities of auction capacity allocated and, where relevant, curtailed auction MDQ), which until sufficient liquidity develops in this market, will not include the bid stack.
Auction participation		To participate in the auction and utilise the capacity procured in the auction, shippers will be required to enter into an Auction Agreement with AEMO and have an operational transportation services agreement in place with the relevant service provider (see Table 2.1 for more detail).
Auction services	Auction services	<p>Participants will be able to use the auction to procure:</p> <ul style="list-style-type: none"> Forward haul transportation services (with separate products offered in both directions on bi-directional pipelines). Stand-alone compression services. Backhaul services available on single direction pipelines (or parts of pipelines).
	Auction service priorities and grandfathered rights	<p>Priority principles</p> <p>Auction services will be subject to the following priority principles:</p> <ul style="list-style-type: none"> In the case of contracted capacity, auction services will rank below firm and grandfathered transportation rights and renomination rights (firm and reasonable endeavours), but above all the other lower tier transportation and renomination rights from a scheduling, curtailment and renomination rights perspective. If there is a more general shortfall in the facility's capacity, which affects both the contracted and uncontracted capacity on a day (including in the case of backhaul, by reason of a reduction in net forward haul flows), the auction service will be curtailed after lower tier services. <p>The NGR will require service providers to comply with these priority principles to the extent it is operationally and technically feasible to do so. The NGR will also prohibit service providers from scheduling lower tier services earlier than the auction service.</p> <p>During the gas day service providers will be able to sell any unutilised auction capacity on an interruptible basis, but this capacity will rank below the auction product from a curtailment and renominations right perspective.</p> <p>See the Key Terms table on page iv for the definition of terms, such as 'firm' and 'lower tier services'.</p> <p>Grandfathered rights</p> <p>Transitional arrangements will be put in place to treat certain transportation rights held by gas fired generators when used at their generation site as 'firm' transportation rights for the purposes of calculating the auction quantity limits and determining the auction service priorities. These transitional arrangements are proposed to be available for a two-year period (e.g. 1 March 2019 to 28 February 2021) and will only apply to transportation rights that were acquired under a primary facility agreement on or before 3 January 2018 (see section 5.1.1 for more detail).</p>
	Other features of the auction service	The standard auction product will have a maximum hourly quantity (MHQ) factor equal to the MHQ factor set out in the service provider's standard operational agreement, a reasonable endeavours renomination right and a zero imbalance allowance. If the auction participant requires additional hourly flexibility or an imbalance allowance it can negotiate with the service provider for the provision of this additional flexibility.



Design Element		Detail
Auction format	Contract path specification	<p>Forward haul and compression auction services will be sold using a hybrid point-to-point and zonal model. The hybrid model will allow auction participants to bid on a point-to-point basis for any unused capacity at individual receipt or delivery points, but their ability to secure capacity at those points will, in the case of pipelines, depend on whether there is sufficient:</p> <ul style="list-style-type: none"> ▪ CBU capacity available in the receipt point zone and delivery point zone they wish to use; and ▪ CBU capacity along the segments of the pipeline they need to use. <p>For compressors, access to unused capacity at a point will depend on whether there is sufficient CBU capacity available in the compression zone.</p> <p>Backhaul services will be sold on a point-to-point basis between points that AEMO determines should be included in the auction from time to time. In contrast to forward haul and compression services, the availability of backhaul services will not be constrained by CBU capacity. It will instead depend on whether there are sufficient firm net forward haul flows between the points on which the backhaul service is to be provided (see section 5.1.2).</p> <p>Other: To ensure that the publication of information in advance of the auction does not directly or indirectly disclose a nomination made by a market generating unit as defined in the National Electricity Rules, AEMO will be able to implement measures to protect this information.</p>
	Auction design principles	<p>The day-ahead auction will take the form of a partial combinatorial auction (which will allow capacity to be procured across multiple pipelines and compressors, irrespective of location or asset ownership) with static backhaul (i.e. auction backhaul services are allocated in a static manner against net forward haul firm flows and do not take into account forward haul flows generated through the auction). The auction will also provide for:</p> <ul style="list-style-type: none"> ▪ a single round sealed bid process with a zero reserve price (compressor fuel will either be provided in-kind by the auction participant, or by the auction facility operator with the costs recovered separately); ▪ a pay-as-cleared pricing rule, which will be determined by the lowest accepted bids in the auction; and ▪ auction winners to be determined using the revenue-maximising combination of bids, with auction proceeds to be allocated to service providers on the basis of the revenues achieved by the products provided by each auction facility operator. <p>The NGR will require the auction established by AEMO to give effect to these design principles.</p>
	Auction quantity	The methodology to be used to calculate the auction quantity limits will be set out in the Auction Procedures. When developing the methodology, AEMO will be required to give effect to the principles set out in the NGR.
	Treatment of curtailment	<p>Because the auction product will not be a firm product, the following additional measures will be available to deal with the risk of curtailment, which could occur as a result of renominations by firm capacity holders or more general technical or operational constraints:</p> <ul style="list-style-type: none"> ▪ Auction participants will be able to try and avoid curtailment by procuring uncontracted capacity from the service provider of the asset that is experiencing the curtailment if such capacity is available (this will be a matter for negotiation and not mandated in the NGR). ▪ If auction participants are unable to procure primary capacity, they will be able to choose whether they are only curtailed on that product; or curtailed across all products included in the winning bid (to operationalise this option, shippers will renominate down on the other products). ▪ If curtailment is required, it will occur on a pro-rata basis and auction participants will not be required to pay for the curtailed capacity or the capacity that has been renominated down on other products.
Market conduct related rules		<p>Auction participants will be required to comply with similar general requirements (e.g. not to act fraudulently, dishonestly or in bad faith) and market conduct rules (e.g. an auction participant must not manipulate or attempt to manipulate the auction) to those applying in the GSH.</p> <p>To ameliorate the gaming risks associated with nominations and renomination rights (e.g. capacity holders may try to deliberately withhold capacity from the auction by over nominating on gas day D-1 then re-nominating down on gas day D, or try to cause another shipper to be curtailed on the gas day by renominating up on the gas day), shippers will be prohibited from making a nomination or renomination that is false, misleading or likely to mislead.</p>



5.1.1 Grandfathered rights

During the consultation process that was conducted in October 2017, concerns were raised by some stakeholders about the potential for the prioritisation of the auction product ahead of the as available and authorised overrun rights held by gas fired generators to have a deleterious effect on the National Electricity Market (NEM). Through this process, the GMRG was also advised that some service providers have a firm obligation to make capacity available to gas fired generators with an as available service and/or an authorised overrun service if nominated.

Given the conditions prevailing in the NEM at the time the recommendations were made, the GMRG was of the view that some caution should be exercised. The GMRG therefore recommended that existing as available and authorised overrun rights should rank ahead of the auction product for a transitional period in those cases where a service provider would be in breach of existing commitments if it scheduled these services after the auction product. The GMRG went on to note that as confidence in the auction grew, gas-fired generators could be expected to make greater use of the auction and secondary capacity purchased through the capacity trading platform. The need to grandfather these rights was therefore only viewed as a transitional measure.⁵¹

At the time this recommendation was made, the GMRG understood that this transitional measure would only apply to a small subset of ‘firm’ as available and authorised overrun rights. However, subsequent consultation has revealed it is not possible to distinguish between the firmness of these rights with any precision, and that as the recommendation was drafted, service providers may seek to rank all or most as available and authorised overrun rights ahead of the auction product. Such an outcome would be contrary to the policy intent, which is for the auction service to rank as closely as possible behind firm services so that firm capacity holders have a strong incentive to release any spare capacity they may have prior to the auction. The GMRG has therefore given further thought to the scope of the grandfathered rights.

In doing so, the GMRG has considered:

- the original intent of the recommendation, which was to provide gas-fired generators some additional time to transition to the new arrangements to minimise any potential impact on the NEM; and
- the way in which the transition to the new arrangements is expected to occur and the impact it is expected to have on the ability of shippers to manage demand risks, which have to date been managed through as available and authorised overrun services.

In relation to the latter of these matters, the GMRG understands from discussions it has had with some stakeholders that there is a concern that the standardised capacity products that will be available on the capacity trading platform and day-ahead auction will not be a direct substitute for the services they currently use to manage demand risks. It is important to note though that while the products sold through these mechanisms will be standardised, shippers can achieve similar levels of flexibility to what they currently have

⁵¹ Ibid, pp. 42-43.



by supplementing the standardised service with other services provided by service providers or procured through bilateral capacity trades.

For example, a shipper that requires a greater level of hourly flexibility and imbalance entitlement than provided for under a standard operational transportation service in the standard operational agreement could, under the current drafting of the Code:

- negotiate with the service provider to obtain a higher maximum hourly quantity (MHQ) factor and a greater imbalance allowance than provided for in the standard operational agreement;⁵² or
- enter into a bilateral trade with another shipper to acquire higher hourly and imbalance entitlements than provided for in the standard operational agreement.⁵³

As this example highlights, shippers will still be able to manage demand risks under the new arrangements – it is just the manner in which this is done that would change.

Having regard to the matters set out above, the GMRG is of the view that the scope of the grandfathered rights should be limited to:

- (a) transportation rights used for the transportation of gas by a gas fired generator to its generation site that in normal operating conditions will be treated as firm once scheduled (e.g. as available and authorised overruns); and
- (b) transportation rights of the nature described in (a) that were acquired under a primary facility agreement entered into on or before 3 January 2018 (or through an option to acquire the right in such an agreement).⁵⁴

This limitation is reflected in the Part 4 of the transitional rules (Schedule 5), which also states that the grandfathered rights will only be treated as ‘firm’ services for the purposes of service priorities and auction quantity calculations for a two-year period from commencement of the auction.

The GMRG understands that allowing these rights to be grandfathered could increase some of the risks associated with the auction product (i.e. because these rights will rank ahead of the auction product and result in less CBU capacity being released⁵⁵ into the auction). However, it is important to recognise that if gas fired generators are able to acquire capacity through the capacity trading platform or auction at a lower cost (including the cost of any supplementary services they require) than their as available or authorised

⁵² Provision has been made for this to occur in the Code through the inclusion of “Other Services” provisions. While the decision to provide other services will be a matter for negotiation, the Code does state that the price and other terms on which these services are provided must be reasonable, which means at prices and other terms that reflect the outcomes of a workably competitive market (see clause 3, Part 5 of the Code). Part 24 of the NGR also makes it clear that if a dispute about these services arises on a non-scheme pipeline, the shipper can have recourse to the information disclosure and arbitration mechanism in Part 23 of the NGR (see draft rule 594).

⁵³ Provision has also been made in the Code for service providers to facilitate these types of trades in those cases where the transfer can occur without adversely affecting the operational integrity of the facility. The Code also states that any terms imposed by service providers on these types of trades must be reasonable and designed to facilitate such trading (see clause 17, Part 5 of the Code).

⁵⁴ The 3 January 2018 date referred to in (b) is the date that the Energy Council formally agreed to the GMRG’s recommendations on the design of the auction. The selection of this date is intended to counter the incentive that market participants may otherwise have to try and enter into agreements before the reform package is implemented to try and circumvent the reforms.

⁵⁵ This is because as available and authorised overrun services do not usually have contracted capacities attached to them so the contracted capacity component of the CBU calculation will be unchanged, but the nominated component will be higher.



overrun service, they are unlikely to utilise these rights. It should not therefore be assumed that these rights will always be exercised.

As noted above, the Energy Council will need to approve the proposed change in scope of the grandfathered rights. The GMRG is therefore interested in obtaining any feedback stakeholders may have on this issue, including on the proposal to grandfather the rights for a two-year period.

Box 5.1: Questions on grandfathered rights

22. Do you think the proposal to limit the availability of grandfathered rights to gas fired generators for use at their generation plant is appropriate? If not, please explain why.
23. Do you think the proposed two-year transitional period for grandfathered rights is appropriate? If not, please explain why.
24. Are there any other limitations that you think should be placed on the availability and/or use of grandfathered rights?

5.1.2 Contract path specification

Forward haul and compression auction services

In the original auction proposals developed by the Australian Pipelines and Gas Association (APGA) and AEMO in early 2017:

- APGA proposed the adoption of a point-to-point approach to allocating capacity; and
- AEMO proposed the adoption of a pure zonal approach to allocating capacity.

Through the consultation process, the GMRG also raised the prospect of using a point-to-point approach with some zoning of substitutable points and sought feedback from stakeholders. Stakeholders were divided in their views on this issue, with:⁵⁶

- APA Group, Jemena, Tasmania Gas Pipeline, Origin Energy, Australia Pacific LNG and Santos supporting the point-to-point approach with zoning of substitutable points, because they believed it would be simpler and cost less to implement than the zonal model and give rise to lower delivery risks for auction winners.
- AGL, Alinta Energy, Engie, Stanwell and Shell supporting the zonal approach, because they believed the same approach used for the capacity trading platform should be used in the auction.
- Epic Energy also supported the zonal model, because it thought it would be simpler to implement and provide more flexibility for auction participants (particularly those at single user points, who under a point-to-point approach may be unable to procure any capacity through the auction).

⁵⁶ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017, p. 50-52.



- AEMO and ERM Power noted that a combination of approaches may be required, but further work should be carried out on the options during the next stage of development.

Having regard to this feedback, the GMRG's final recommendation was that further work be carried out in early 2018, in conjunction with AEMO, service providers and other stakeholders, to specify the approach to be used to allocate capacity through the auction.⁵⁷

As the feedback stakeholders provided highlights, there are pros and cons associated with both a pure point-to-point and a pure zonal approach. For example:

- Under the pure point-to-point approach, auction participants can secure capacity at the receipt and delivery points they require so delivery risk is low. This approach does not, however, yield the most efficient allocation of CBU capacity when it is released from a single user point, because other shippers will be unable to utilise this capacity. It does not therefore provide shippers at these points with a strong incentive to release capacity ahead of the auction.

This can be seen in the following example, which assumes that Origin's Quarantine power station and Engie's Pelican Point power station are located at single user delivery points but are in the same delivery zone on the Moomba to Adelaide Pipeline System (MAPS). In this example, Origin decides not to nominate to use all of its contracted capacity at Quarantine and 5 TJ is released into the auction, while Engie is using all of its contracted capacity but there is 10 TJ of unused capacity at its delivery point. Under the point-to-point approach, Engie would be unable to use the 5 TJ of capacity released in the auction because there is no CBU capacity at its delivery point.

- Under a pure zonal approach, if there is CBU capacity at a zonal and pipeline segment level and unused physical capacity at receipt and delivery points, the capacity released in the auction can still be used even though the CBU capacity at individual points may be zero. This approach therefore overcomes the limitation of the pure point-to-point approach. There is, however, a risk under this approach that winning bidders will not gain access to the receipt and delivery points they require and so will pay for capacity they may be unable to use (i.e. because they will secure zonal capacity and then have to separately seek access to the receipt and delivery points).

Given the limitations with both models, the GMRG and AEMO have worked together to develop a hybrid model for the forward haul and compression auction services that harnesses the benefits of both options while also overcoming their limitations.

The hybrid model that has been developed will allow auction participants to bid for any unused capacity at individual receipt or delivery points, but their ability to secure capacity at those points will, in the case of a pipeline, depend on whether there is sufficient:

- CBU capacity available in the receipt point zone and delivery point zone they wish to use; and
- CBU capacity on the pipeline segments connecting the receipt point zone and delivery point zone.

⁵⁷ Ibid.



In the case of a compression facility, the ability to secure unused capacity at a compression receipt point or compression delivery point through the auction will depend on whether there is sufficient CBU capacity in the compression zone.

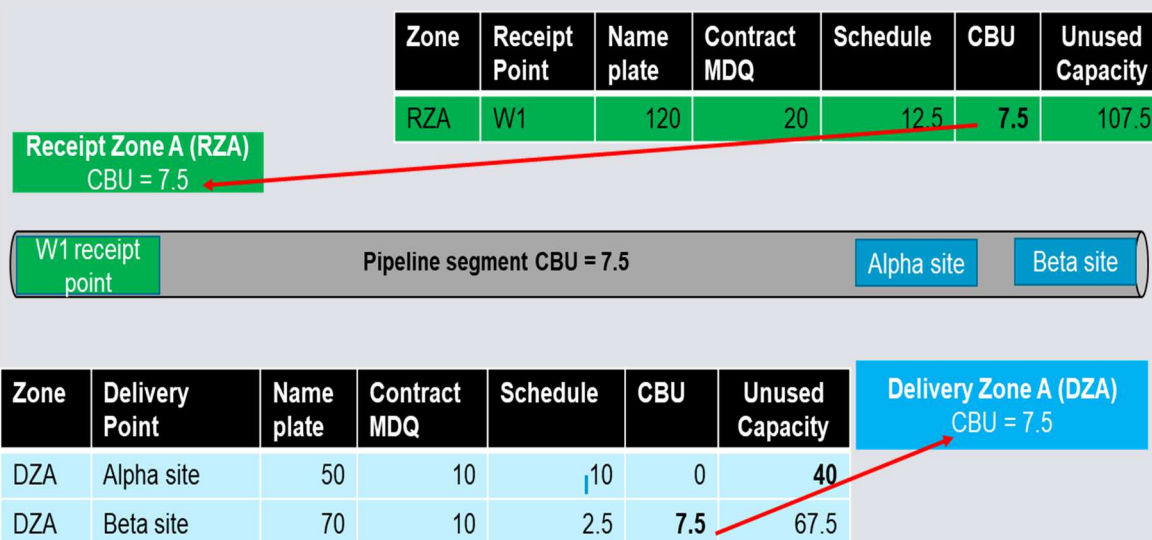
In contrast to the pure point-to-point model, the hybrid model yields a more efficient allocation of capacity because, in a similar manner to the capacity trading platform, it allows CBU capacity from individual points to be moved to other points within the zone if there is unused capacity at those points and sufficient pipeline segment CBU. The hybrid model also overcomes the delivery risk associated with the pure zonal model, because when a shipper wins capacity it knows it has secured capacity at the points it requires.

A simplified example of the way in which the hybrid model is intended to operate in relation to forward haul services is provided in **Box 5.2**.

Box 5.2: Hybrid model example

In this example:

- Beta does not use 7.5 TJ of its contracted capacity so 7.5 TJ of receipt point, delivery point and pipeline segment capacity is released into the auction; and
- Alpha wants to transport an additional 5 TJ of gas to its site, so puts in a bid for capacity at receipt point W1 and 5 TJ at its delivery point.



As the blue table at the bottom of the diagram shows, there is no CBU capacity at Alpha's delivery point, so under a point-to-point approach it would not be able to procure capacity in the auction. However, under the hybrid model Alpha could win the capacity released by Beta, because there is:

- 40 TJ of unused capacity at its delivery point (Alpha site);
- 7.5 TJ of zonal CBU capacity in Receipt Zone A and Delivery Zone A; and
- 7.5 TJ of pipeline segment CBU capacity.

Of the three options outlined above, the hybrid model is more consistent with:



- the objective of the capacity trading reforms, which were described by the AEMC as being to improve the efficiency with which transportation capacity is allocated and utilised and to foster the development of a more liquid market for secondary capacity;
- the NGO, which is to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas; and
- the Energy Council's Vision of the direction gas market development should take to meet the NGO and the outcomes the Energy Council agreed to pursue in the next phase of gas market reform.⁵⁸

The GMRG is therefore proposing to recommend this model for the forward haul and compression auction services. The GMRG is, however, interested in hearing stakeholders' views on this model and has set out some specific questions it would like feedback on in the box below.

Box 5.3: Questions on the contract path specification

25. Do you agree with the GMRG's proposal to use the hybrid model for forward haul and compression services? If not, please explain why and in doing so:
- set out the approach you think should be employed; and
 - why you think this approach is more consistent with the objectives of the capacity trading reform package, the NGO and the Energy Council's Vision.

Backhaul auction services

Auction backhaul services will be available on single direction pipelines (or parts of bi-directional pipelines that are single direction) between the backhaul receipt and delivery points that AEMO determines should be included in the auction from time to time.

Like forward haul auction services, bids for backhaul auction services will be made on a point-to-point basis. However, in contrast to the forward haul auction service, which is supplied from CBU capacity, the backhaul auction service will be allocated in a static⁵⁹ manner against the scheduled net⁶⁰ forward haul firm⁶¹ flow. If there is sufficient net forward haul flow between the points on the pipeline through which the backhaul service is to be provided and, where relevant, unused capacity at the backhaul receipt and delivery points,⁶² then the auction participant will be able to bid for the service. Given the potential

⁵⁸ COAG Energy Council, Australian Gas Market Vision, December 2014.

⁵⁹ The term 'static' is used in this context because any additional forward haul flows generated by the auction will not be allocated to the backhaul auction service.

⁶⁰ The term 'net' is used here because firm backhaul rights will be scheduled before the auction backhaul product.

⁶¹ During the transitional period for grandfathered rights, this will include forward haul flows from grandfathered rights holders.

⁶² Whether or not unused capacity at a receipt or delivery point is required will depend on the type of backhaul service that is being provided and whether the backhaul receipt point is also a forward haul delivery point. For example:

- if the backhaul service involves the physical supply of gas from a point upstream of the point where the gas is to be taken, then there will need to be sufficient unused capacity at the backhaul receipt point at which the gas is to be supplied; and



for the users of backhaul and forward haul auction services to compete for access at some points, backhaul auction services will be allocated at the same time as forward haul auction services.

Through the consultation that the GMRG and AEMO have held with service providers, it has become clear that there are some additional complexities associated with backhaul services and that it may not be feasible to offer backhaul services between every receipt and delivery point. The GMRG is therefore proposing that AEMO determine the backhaul receipt and delivery points to be included in the auction from time to time. The GMRG is, however, interested in obtaining feedback on this proposal and the more general approach to allocating backhaul services through the auction.

Box 5.4: Questions on backhaul auction services

26. Do you agree with the proposal to allow AEMO to determine the backhaul receipt and delivery points to be included in the auction? If not, please explain why.
27. If AEMO is to determine the backhaul points to be included in the auction, do you think any principles need to be included in the NGR to guide this decision, or should it just be carried out by reference to the Part 25 objective and the NGO?

5.1.3 Methodology used to calculate auction quantity limits⁶³

At the time the final recommendations on the design of the day-ahead auction were made, it was unclear whether a point-to-point, zonal or hybrid contract path specification would be adopted and if the approach would differ across pipelines. There was therefore some uncertainty as to how the auction quantity limits would be calculated. Given this uncertainty, the final recommendations provided for service providers to develop the methodology that would be used to calculate the auction quantities for their facility and to have this approved by AEMO. The final recommendations also noted the need for further work to be carried out on this issue in early 2018 in parallel with the work on the contract path specification.⁶⁴

Through the work that has been carried out on the contract path specification, it has become clear that determining the auction quantity limits will be quite mechanical and there would be benefit in having a common and transparent process for calculating auction quantity limits to:

- avoid any inconsistencies in approach across different auction facilities;
- provide auction facility operators with more certainty regarding their obligations; and
- reduce the scope for gaming and enable compliance with the methodology to be more effectively monitored and enforced.

▪ if the backhaul delivery point is also a forward haul delivery point then there will also need to be sufficient unused capacity at the delivery point, but if it is a forward haul receipt point then unused capacity is not required (i.e. there just needs to be a sufficient volume of net forward haul firm flows coming in at that point).

⁶³ Note that the term 'limits' is used because there are a number of dimensions to the auction quantity calculations.

⁶⁴ GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017, p. 91.



The GMRG is therefore proposing that the methodology used to calculate the auction quantity limits be prescribed in the Auction Procedures that AEMO will be required to prepare. The Auction Procedures will also set out the information that auction facility operators will be required to provide to AEMO each day to enable the auction quantity limits to be calculated. When developing the methodology, AEMO will be required to give effect to the auction quantity principles specified in the NGR. These principles will provide for the implementation of:

- the hybrid model for forward haul and compression auction services by requiring:
 - the following auction quantity limits to be calculated for each pipeline each day:
 - the unused capacity at each receipt and delivery point, which is calculated as the physical capacity at each point less scheduled firm flows to each point;
 - the pipeline zone forward haul limit, which is calculated as the sum of the CBU capacity at each point in the zone; and
 - the pipeline segment forward haul limit, which is the CBU capacity in the pipeline segment connecting two zones;
 - the following auction quantity limits to be calculated for each compression facility each day:
 - the unused capacity at each compression receipt and delivery point; and
 - the compression zone limit; and
- the static backhaul model, by requiring the backhaul auction quantity limit to be a measure of the maximum quantity of backhaul service it is feasible to provide on the gas day, which will be limited by the scheduled quantity of firm net forward haul flows.

The principles will also recognise that if the operational capacity of individual receipt or delivery points is lower than the physical capacity, or the operational capacity of the pipeline/compression facility is lower than the CBU capacity, then the limits will be capped by the operational capacity.

Box 5.5: Questions on the methodology used to calculate auction quantity limits

28. Do you agree with the proposal to require the methodology to be used to calculate the auction quantity limits to be specified in the Auction Procedures? If not, why?
29. Do you think any additional principles need to be included in the NGR to guide AEMO's development of this methodology? If so, please specify the principles and why you think they are required.

5.1.4 Other matters

In addition to the refinements outlined above, the GMRG is interested in hearing stakeholders' views on whether:

- the proposed balance between the auction provisions that will be in the NGL, the NGR, the Auction Procedures, the Auction Agreement and Code is appropriate; and
- additional transparency measures are required so that auction participants can better understand the risks associated with the auction products.



Proposed balance between the legal and regulatory instruments

When developing the legal and regulatory arrangements for the auction, the GMRG has been cognisant of the need to strike the right balance between:

- providing AEMO, the AER, service providers, auction participants and other market participants with sufficient guidance in the NGL and the NGR about their respective functions, powers and obligations and how the auction is intended to operate; and
- providing sufficient flexibility in the arrangements to:
 - enable AEMO to operate and administer the auction effectively on a day-to-day basis and over time; and
 - accommodate differences in technical and operational conditions across auction facilities.

This has resulted in, for example:

- the NGR setting out the principles that AEMO must give effect to when implementing the auction in the Auction Procedures including the detailed allocation methodology and settlement calculations; and
- the NGR setting out the principles that AEMO must give effect to when developing the methodology for the auction quantity limits, while the Auction Procedures will set out the detailed methodology.

The GMRG is interested in obtaining stakeholders' feedback on the balance that has been struck between the NGL, NGR, Auction Procedures, Auction Agreement and Code and if any refinements may be required.

Box 5.6: Questions on proposed balance between legal and regulatory instruments

30. Do you think the balance that has been struck between the various legal and regulatory instrument is appropriate? If not, what changes do you think need to be made to achieve a better balance?
31. Do you think there are any contractual or other legal impediments to prevent auction facility operators giving effect to the results of the auction and auction service priorities? If so, what are they and how do you think they could be addressed?

Other transparency measures

The proposed design of the day-ahead auction provides for AEMO to specify the information that will be published pre- and post-auction in the Auction Procedures. While there are some obvious pieces of information that AEMO would be expected to publish (e.g. capacity available in the auction, clearing prices and capacity sold in the auction), the GMRG is interested in getting stakeholders' feedback on whether there is likely to be any value in requiring information on:

- intra-day curtailments of the capacity sold in the auction to be published on the Bulletin Board during the gas day; or



- the grandfathered rights scheduled ahead of the auction to be published on the Bulletin Board after the gas day.

As with any type of reporting obligation, there would be costs associated with publishing this information. The GMRG would therefore like to understand what the benefits of publishing this information are likely to be and if there are any ways that the reporting obligation could be minimised (e.g. by restricting the reporting on intra-day curtailments of capacity sold in the auction to material intra-day curtailments).

Box 5.7: Questions on the auction transparency measures

32. Do you think information on intra-day curtailments to capacity sold in the auction should be published on the Bulletin Board during the gas day? If so:
 - What benefit do you think it would provide?
 - Do you think the obligation to report this information should be limited to material curtailments (e.g. where the capacity sold in the auction is curtailed by more than 10%)?
33. Do you think information on the grandfathered rights that have been scheduled ahead of the auction should be published on the Bulletin Board after the gas day? If so, what benefit do you think it would provide?
34. Are there any other types of information that you think could be published that have not already been identified, which would allow auction participants to better understand the risks?

5.2 Proposed legal and regulatory framework

To implement the day-ahead auction, changes will need to be made to the NGL, the NGR and Regulations. AEMO will also need to develop the Auction Procedures (which will include the Auction Agreement) and amend a number of other procedures. Further detail on the proposed changes to the NGL, NGR and Regulations is provided below.

5.2.1 Proposed changes to the NGL

Changes to the NGL are required to:

- extend the subject matter of the NGR⁶⁵ and the scope of the AEMC's rule making functions⁶⁶ to include the day-ahead auction;
- specify the new functions and powers of AEMO in relation to the day-ahead auction, which include:⁶⁷
 - establishing, operating and administering the auction;
 - making and administering Auction Agreements;

⁶⁵ See Schedule 1 (Subject matter for the NGR) of the NGL (items 55T, 68A and 68B).

⁶⁶ See section 74 of the NGL.

⁶⁷ See Chapter 2, Part 6 (Role of AEMO under the NGL) of the NGL and, in particular, section 91A, Division 2C, Division 2D, Division 6 (Subdivision 3 and Subdivision 4), Division 7 (section 91GG) and Division 8 (section 91H).



- making, amending or revoking the Auction Procedures;
- subject to the NGR and procedures, suspending an auction; and
- trading in transportation capacity to the extent necessary or desirable for the efficient operation of the auction;
- impose an obligation on service providers, shippers and auction participants to provide AEMO with the information it requires to operate and administer the auction and prohibit the provision of information these parties know is false or misleading;⁶⁸
- prohibit shippers from providing service providers with information that is required for the operation and administration of the auction that they know is false or misleading;⁶⁹
- provide service providers and AEMO immunity from civil monetary liability to shippers for selling capacity in the auction in accordance with the NGR;⁷⁰ and
- allow AEMO to make the Capacity Transfer and Auction Procedures to support the operation of the auction and require service providers, shippers and auction participants to comply with these procedures (see Chapter 4 for more detail).⁷¹

With the exception of the item mentioned in the first bullet point, all the other items listed above will require changes to **Part 6 (Role of AEMO under the National Gas Law) of the NGL**.

Note that while the obligations in the NGL apply to all transportation service providers, the scope of the obligations is narrowed in the NGR to the operators of auction facilities, which are defined in Part 25 of the NGR as transportation facilities that have not obtained an exemption under Part 24 of the NGR (each being referred to in the NGR as a ‘Part 24 facility’).

5.2.2 Proposed changes to the NGR

Changes to the NGR are required to:

- set out the objective of the auction, which is to “improve the efficiency with which transportation capacity is allocated and foster the development of a more liquid secondary market for transportation capacity”;⁷²
- provide for the establishment, operation and administration of the auction by AEMO and set out the scope of the Auction Procedures and the standard form Auction Agreement that AEMO will be required to develop and the fees it can recover;⁷³
- specify the services to be auctioned and the auction service priority principles that auction facility operators must give effect to if it is operationally and technically feasible to do so;

⁶⁸ See Chapter 2, Part 6, Division 6, Subdivision 3 of the NGL.

⁶⁹ See section 91FEI of the NGL.

⁷⁰ See section 91BRO of the NGL.

⁷¹ See Chapter 2, Part 6, Division 2D of the NGL.

⁷² See draft rule 645 of the NGR.

⁷³ See Subdivision 2.3, Part 25 of the NGR.



- set out the auction design principles that AEMO must give effect to when establishing and operating the auction and the auction quantity limits principles that it must give effect to when developing the methodology to be used to calculate the auction quantity limits;⁷⁴
- set out the obligations that auction facility operators will have to provide information to AEMO and to give effect to the auction results;⁷⁵
- specify the standard that will apply to any information that a person is required to provide to AEMO or the AER;⁷⁶
- set out the general requirements and market conduct rules that will apply to auction participants and the AER's role in monitoring compliance with these requirements and the NGR;⁷⁷
- impose an obligation on shippers not to make day-ahead nominations or renominations that are false or misleading or likely to mislead, and require service providers and shippers to make and maintain records on nominations and/or renominations in accordance with guidelines issued by the AER;⁷⁸ and
- provide for the payment of auction revenues to auction facility operators.⁷⁹

These changes are set out in **Part 25 (Capacity Auction)**, which is a new part that will be added to the NGR.

To deal with some of the transitional issues associated with the auction, a number of transitional rules will be set out in Schedule 5, including the commencement dates for Part 25 and the auction and what is to occur in the intervening period (auction transition period). The transitional rules also set out:

- The transitional arrangements that will apply to the 'grandfathered' rights, which the GMRG is proposing only be available in the limited circumstances described in section 5.1.1 for a maximum of two years.⁸⁰
- The commencement dates for the obligation that shippers and auction facility operators will have to keep records of nominations and/or renominations and the date by which the AER will be required to develop and publish an initial guideline on the information to be recorded.⁸¹
- The reporting obligations that compression service facility operators registered under Part 24 will be required to comply with to enable auction participants to understand the risks associated with the compression auction product. The reporting obligations, which are similar to the Bulletin Board reporting obligations that pipeline service providers are subject to, will commence on 1 February 2019 and end when the facility is registered as a Bulletin Board facility under Part 18.⁸²

⁷⁴ See Subdivision 2.1, Part 25 of the NGR.

⁷⁵ See Subdivision 2.2, Part 25 of the NGR.

⁷⁶ See draft rule 649 of the NGR.

⁷⁷ See Division 3, Part 25 of the NGR.

⁷⁸ See Division 3, Part 25 of the NGR.

⁷⁹ See Division 4, Part 25 of the NGR.

⁸⁰ See draft transitional rule 3, Part 4, Schedule 5 of the NGR.

⁸¹ See draft transitional rules 4-5, Part 4, Schedule 5 of the NGR.

⁸² See draft transitional rules in Part 5, Schedule 5 of the NGR.



In relation to the latter of these transitional rules, the reporting obligation has been included in the Part 25 transitional rules rather than Part 18 because a separate amendment to the NGL is currently being progressed that will expand the scope of the Bulletin Board reporting obligations to include compressors. When this amendment is made, the AEMC will consider the second stage of its proposed Part 18 rule change, which provides for similar obligations to be applied to compression service facility operators. Once the new rules are implemented and the compression facilities are registered under Part 18, this transitional rule will lapse.

The provisions in Part 25 and the transitional rules should be read in conjunction with:

- Part 24 (Facilitating capacity trades and the capacity auction) of the NGR, which, amongst other things sets out:
 - The circumstances in which an exemption from the auction can be obtained (note that if a facility is an exempt transportation facility under Part 24 of the NGR then it is also exempt from the auction).⁸³
 - The auction related matters that must be dealt with in the Code⁸⁴ and the obligation that service providers have to ensure their facility specific terms comply with the auction service priority principles.⁸⁵
 - A number of matters to be dealt with in the Capacity Transfer and Auction Procedures, including:⁸⁶
 - the process for obtaining information on the facility agreements to be used to give effect to capacity procured through the auction;
 - the process for determining the zones, pipeline segments and service points that will be used in the auction; and
 - the arrangements that will apply to capacity procured through the auction at a DWGM interface point.

Further detail on these provisions can be found in Chapter 4.

- The proposed amendments to Part 18 (Natural Gas Services Bulletin Board) of the NGR and the transitional rules associated with this part of the NGR, which require:
 - Service providers to provide AEMO with information on the nameplate rating, short-term and medium-term capacity outlook for each receipt and delivery point.⁸⁷ This information, coupled with historic daily flow data at a receipt and delivery point level, will enable auction participants and capacity trading platform users to assess the risks associated with trying to use the capacity procured through either mechanism at a particular point, given they will have lower priority at those points.
 - Remote transportation facilities that would otherwise be excluded from the Bulletin Board reporting obligations but are unable to obtain an exemption under Part 24 of

⁸³ See Subdivision 3.1, Part 24 of the NGR and the definition of 'auction facility' in Part 25 of the NGR.

⁸⁴ See Subdivision 2.1, Part 24 of the NGR.

⁸⁵ See draft rule 632(2)(c) of the NGR.

⁸⁶ See Division 4, Part 24 of the NGR.

⁸⁷ See the proposed changes to the definition of 'daily capacity' and 'nameplate rating' in rule 141 and rule 168(2A) of the NGR.



the NGR, to be subject to the reporting obligations.⁸⁸ The extension of the reporting obligation to these facilities will enable auction participants and capacity trading platform users that utilise these pipelines to assess the risks associated with trying to use the capacity procured through either the auction or capacity trading platform.

- AEMO to publish the auction information specified in the Auction Procedures (e.g. auction results and auction quantity limits) on the Bulletin Board.⁸⁹

Further detail on these provisions can be found in Chapter 7.

5.2.3 Proposed changes to the Regulations

Changes to the Regulations will be required to specify:

- the maximum civil monetary liabilities that will apply to parties providing capacity auction information to AEMO, which will be set out in **Regulation 10**; and
- those provisions in the NGL and NGR that will be classified as civil penalty or conduct provisions, which will be set out in **Schedule 3** and **Schedule 4 of the Regulations**.

A list of the provisions in the NGL and NGR that are expected to be classified as civil penalty provisions is provided in Appendix A.

⁸⁸ See the proposed change to the definition of 'remote pipeline' in rule 141 of the NGR.

⁸⁹ See draft rule 195B of the NGR.



6. Capacity Trading Platform

The capacity trading platform is a key element of the capacity trading reform package that will enable shippers to trade any spare secondary transportation capacity they may have prior to the nomination cut-off time on gas day D-1 using either:

- **exchange based trading**, which will be used to facilitate the trade of standardised transportation products through either screen trading or the pre-matched trade service;⁹⁰ or
- **the listing service**, which will be used to facilitate the trade of more bespoke transportation products through bilateral (off-market) trades.

The capacity trading platform, which will be operated and administered by AEMO and form part of the GSH, is intended to reduce the search and transaction costs that shippers may otherwise face when trying to trade secondary capacity.

To implement the capacity trading platform, a number of amendments are required to the NGL, the Regulations and the NGR and a range of other AEMO-made subordinate instruments. AEMO will also need to develop the Capacity Transfer and Auction Procedures, which, amongst other things, will set out the transaction support arrangements that will underpin the capacity trading platform (see Chapter 4 for more detail).

Further detail on the proposed amendments to the NGL, Regulations and NGR is provided in the remainder of this chapter, which commences with a brief overview of the design of the capacity trading platform that was approved by the Energy Council at its 24 November 2017 meeting.

6.1 Overview of the capacity trading platform

Table 6.1 contains a summary of the key features of the capacity trading platform.

As this table highlights, the initial set of services to be listed on the exchange will include firm forward haul services, firm stand-alone compression services and firm park (storage) services. While it will be possible to add other products to the exchange over time or to extend the term of the existing set of products, it is worth noting that, as a practical matter, a product can only be listed on the exchange if it can be 'delivered'.

In the case of transportation services, 'delivery' requires the service provider to agree to give effect to the trade. The reach of the platform is therefore constrained by the specification of the standardised services provided for in the Code (see Chapter 4). Any proposal to add different types of transportation services to the exchange (e.g. a loan service) would require changes to also be made to the Code (unless a service provider volunteers to put in place arrangements that allow other products to be traded).

⁹⁰ The pre-matched service allows participants to register off-market trades in listed products to the exchange for settlement.

Table 6.1: Design of the capacity trading platform

Design Element	Detail
Operation of the capacity trading platform	<p>The capacity trading platform will be operated by AEMO and form part of the exchange. The capacity trading platform will provide for both:</p> <ul style="list-style-type: none"> ▪ Exchange-based trading of commonly traded transportation (pipeline and compression) products, which can be conducted through either: <ul style="list-style-type: none"> – the screen trade service, which allows participants to place anonymous bids or offers for standardised products that are automatically matched; or – the pre-matched trade service, which allows participants to bring a bilateral trade in one of the listed products to the exchange for settlement. <p>The screen trade service will operate on a fully anonymous basis (i.e. the names of counterparties will not be revealed pre or post-transaction), with AEMO informing the service provider of the trade and the service provider then confirming and giving effect to the trade. The process for validating trades will be set out in the transaction support arrangements that will form part of the Capacity Transfer and Auction Procedures.</p> <ul style="list-style-type: none"> ▪ A listing service that shippers can use to list other products and imbalance trades. <p>Trades conducted through the exchange will utilise existing GSH settlement, prudential and reporting frameworks, which means participants will receive one settlement statement for all traded products and be able to aggregate their prudential requirements across gas and secondary capacity products.</p>
Initial set of services to be listed on the exchange	<p>The initial set of standardised products to be sold on the exchange include:</p> <ul style="list-style-type: none"> ▪ firm forward haul services on all major transmission pipelines (if the pipeline is bi-directional, services will be available in both directions); ▪ firm stand-alone compression services; and ▪ firm park (storage) services on all the major transmission pipelines that offer this service. <p>These services will have a minimum contract size of 500 GJ/day and will be available as:</p> <ul style="list-style-type: none"> ▪ a day-ahead product; ▪ a daily product (available on a 6-day rolling basis); ▪ a weekly product (available on a 4-week rolling basis); and ▪ a monthly product (available on a 3-month rolling basis). <p>The standard terms and conditions on which the buyer can use these products will be set out in the service provider's standard operational agreement, which, amongst other things, will specify the maximum hourly flexibility the buyer will have and provide the buyer with a reasonable endeavours renomination right.</p>
Contract path model	<p>Forward haul services will be traded using the zonal model with secondary firm rights at receipt and delivery points to maximise the pool of prospective buyers and sellers of these services. Under the zonal model:</p> <ul style="list-style-type: none"> ▪ primary shippers will be able to sell point-to-point capacity on a zone-to-zone basis; and ▪ secondary shippers will be able to acquire capacity on a zone-to-zone basis.. <p>The secondary firm rights concept is required under the zonal model, because the capacity that is sold by the primary shipper may be released from a different receipt or delivery point in the zone to the point the secondary shipper intends to use in that zone and the capacity of individual points within a zone will usually be lower than the zonal capacity. To deal with these limitations of the zonal model, while also recognising the firm rights that primary shippers have to use receipt and delivery points, the secondary firm rights concept allows secondary shippers to use any receipt or delivery points within a zone but their rights at those points are subordinate to primary shippers with firm rights at those points.</p>

Design Element	Detail
Management of financial and delivery default risks	<p>There are two key risks that buyers using the exchange will be exposed to:</p> <ul style="list-style-type: none"> ▪ The seller's primary facility agreement is terminated by the service provider: In this case, the service provider will be obliged to honour the transaction for up to 14 days after the primary facility agreement is terminated and receive a price determined by AEMO in return for doing so. This measure is necessary because the buyer will not know the seller's identity so will be unable to carry out its own assessment of the financial viability of its counterparty prior to entering into the trade. By keeping the trade on foot for two weeks, buyers will have time to find alternative arrangements, which will promote an orderly transition and minimise the impact of default on the gas market. If rather than being terminated, the seller's primary facility agreement is suspended, the service provider will be obliged to honour the trade for the term of the trade. ▪ The seller short-sells capacity: In this case, the arrangements in the Capacity Transfer and Auction Procedures will give the seller a short period of time to rectify the position. If it cannot be rectified, the trade will be cancelled and the buyer(s) will be compensated with the collateral posted by the short-seller. Because individual counterparties will not be known, if a trade is cancelled all secondary shippers' capacity would be pro-rated down. This measure is necessary because, in contrast to other markets, there will not be a capacity register that AEMO can use to validate that the seller has the capacity prior to the trade occurring (note that while this feature was consulted upon, stakeholders were of the view that the costs of establishing such a register would outweigh the benefits). It is worth noting that other elements of the GSH, such as the market conduct rules and other prudential controls, should discourage any uncovered speculative trading from occurring. The risk of short-selling occurring should therefore be relatively low.

6.2 Proposed legal and regulatory framework

In contrast to the day-ahead auction, implementing the capacity trading platform will require limited changes to the existing legal and regulatory framework because it will form part of the gas trading exchange, which is already part of that framework (see Table 6.2).

Table 6.2: Existing GSH legal and regulatory framework

Instrument	Description
NGL (Chapter 2, Part 6 Division 2B)	<p>AEMO operates the GSH as one of its statutory functions under section 91BRK of the NGL. This section of the NGL provides for AEMO to establish, operate and administer 'gas trading exchanges', which are defined as facilities through which persons may elect to buy and sell natural gas or related goods or services, including pipeline capacity.</p> <p>This section of the NGL also allows AEMO to make and administer the Exchange Agreement for the purposes of the exchange. AEMO's gas trading exchange functions and the operation of the gas trading exchange are included as subjects for the NGR (s.74(1)(aaa)).</p>
Part 22 of the NGR	<p>Part 22 of the NGR contains rules applicable to the GSH. Matters covered in Part 22 include:</p> <ul style="list-style-type: none"> ▪ high level design parameters for the exchange; ▪ arrangements for the determination of charges for delivery failures; ▪ arrangements for becoming a member; ▪ AEMO's power to suspend a member; ▪ the subject matter for the Exchange Agreement; and ▪ the market conduct rules. <p>Part 22 can be amended by the AEMC through the usual rule change process.</p> <p>The AER monitors compliance and can investigate and enforce breaches under its general powers. It also has a specific duty in Part 22 to monitor compliance with market conduct rules.</p>
Exchange Agreement	<p>The Exchange Agreement developed by AEMO (in accordance with the NGR and NGL), is a multilateral contract. It covers admission to the exchange, prudential requirements, operation of the exchange, product definition, delivery obligations and settlement. Some provisions (e.g. the Settlements and Prudential Methodology) are set out in subsidiary documents.</p> <p>The Exchange Agreement can be amended by AEMO over time to, for example, add new products, remove redundant products, or make refinements to existing products. Specifically, rule 540 allows any person to propose an amendment to the Exchange Agreement and states that AEMO can approve the amendment if it is satisfied: (a) the amendment is consistent with the NGL and the NGR; and (b) the amendment is appropriate having regard to the NGO and the compliance costs likely to be incurred by AEMO and participants. Before making a change, AEMO must consult with exchange members and any other persons AEMO thinks would be affected by the proposed amendment.</p>
GSH Subsidiary Documents	<p>AEMO has the power to make procedures in accordance with the Exchange Agreement. The procedures that AEMO has published to date include procedures on: reallocation (the Reallocation Procedure); the interface between systems (the Interface Protocol); exchange fees; and security deposits.</p>

While the implementation of the capacity trading platform will largely rely on the existing legal and regulatory framework, some changes to the NGL, NGR and Regulations will be required to implement the design of the capacity trading platform outlined in Table 6.1. AEMO will also need to:

- develop the Capacity Transfer and Auction Procedures, which amongst other things, will set out the transaction support arrangements that will be required to provide for a fully anonymous trading exchange;
- amend the Exchange Agreement so that the new capacity products can be listed for trading; and



- make any necessary changes to other procedures and subsidiary documents to accommodate the capacity trading platform.

Further detail on the proposed changes to the NGL, NGR and Regulations is provided below.

6.2.1 Proposed changes to the NGL

As outlined in Table 6.2, the definition of gas trading exchange in the NGL already provides for the trade of related goods and services including pipeline capacity. The primary changes to the NGL to implement the capacity trading platform are those that:

- allow the NGR to specify what will occur if a seller's primary facility agreement is terminated or suspended;⁹¹ and
- extend the subject matter of the NGR⁹² and the scope of the AEMC's rule making functions⁹³ to include transaction support arrangements and provide for these arrangements to be set out in the Capacity Transfer and Auction Procedures, with which service providers are required by the NGL to comply.⁹⁴

Further detail on the latter of these changes can be found in Chapter 4.

6.2.2 Proposed changes to the NGR

Like the NGL, provisions will need to be included in the NGR to implement the obligations that:

- service providers will have to honour transactions conducted through the exchange that are given effect through an operational transportation service agreement:⁹⁵
 - for up to 14 days if a seller's primary facility agreement is terminated and to be paid an amount determined by AEMO for doing so;⁹⁶ and
 - for the term of the trade if a seller's primary facility agreement is suspended; and
- service providers will have to give effect to operational transfers arising as a result of trades carried out through the exchange, subject to any transaction support (e.g. validation) arrangements in the Capacity Transfer and Auction Procedures and the terms and conditions of the applicable facility agreement.⁹⁷

⁹¹ See section 228H(f) of the NGL.

⁹² See Schedule 1 (Subject matter for the NGR) of the NGL (item 68C).

⁹³ See section 74 of the NGL.

⁹⁴ See section 91BRQ(1) of the NGL.

⁹⁵ See draft rule 639 of the NGR.

⁹⁶ See draft rules 536 and 536A of the NGR. Rule 536A requires AEMO to develop the methodology to be used to determine the amount payable to transportation service providers (which must give effect to principles specified in this rule) and determine the amount to be paid to transportation service providers if a termination occurs, which must be calculated in accordance with the methodology and paid in accordance with the arrangements set out in the methodology.

⁹⁷ See draft rule 638 of the NGR.



An amendment to the NGR will also be required to give AEMO some flexibility to deal with the recovery of the costs of establishing, operating and administering the Capacity Transfer and Auction Procedures.⁹⁸

These changes are set out in Division 2 of **Part 22 (Gas Trading Exchange)** and Division 6 of **Part 24 (Facilitating capacity trades and the capacity auction)**.

These provisions should be read in conjunction with:

- Other divisions in Part 24 (Facilitating capacity trades and the capacity auction), which, amongst other things, set out:
 - The matters that must be dealt with in the Code,⁹⁹ which include the specification of the standard operational transportation services (which include the services that will be available on the exchange) and the terms on which those services can be used.
 - A number of matters to be dealt with in the Capacity Transfer and Auction Procedures, including:¹⁰⁰
 - the process for obtaining information on the transportation facility agreements to be used to give effect to trades conducted through the exchange;
 - the process for determining the zones and service points that will be used for capacity trades; and
 - the arrangements that will apply to capacity procured through the capacity trading platform at a DWGM and STTM interface point.

Further detail on these provisions can be found in Chapter 4.

- The proposed amendments to Part 18 (Natural Gas Services Bulletin Board) of the NGR and the transitional rules, which as noted in Chapters 5 and 7 require additional information to be reported by service providers to enable capacity trading platform users and auction participants to assess the risks associated with capacity procured through either mechanism.

6.2.3 Proposed changes to the Regulations

Changes to the Regulations will be required to specify those provisions in the NGL and NGR that will be classified as civil penalty or conduct provisions, which will be set out in **Schedule 3** and **Schedule 4 of the Regulations**. A list of the provisions in the NGL and NGR that are expected to be classified as civil penalty provisions is provided in Appendix A.

⁹⁸ See rule 534, Part 22 of the NGR.

⁹⁹ See Subdivision 2.1, Part 24 of the NGR.

¹⁰⁰ See Division 4, Part 24 of the NGR.



7. Reporting Framework for Secondary Capacity Trades and Other Transparency Measures

In addition to the measures set out in Chapters 4-6, the capacity trading reform package provides for a range of transparency related measures, including:

- the reporting framework for secondary capacity trades, which is intended to reduce information asymmetries and aid the price discovery process (i.e. by providing for the publication of information on all forms of secondary capacity trades shortly after they are entered into);
- a requirement for AEMO to publish the auction results and other auction related information on the Bulletin Board;
- a requirement for allocation agents to provide AEMO with their contact details and other information on allocation agreements¹⁰¹ for publication on the Bulletin Board, which is intended to reduce the barriers to trade by providing greater transparency around these arrangements; and
- a number of amendments to the Bulletin Board reporting obligations that are required to enable users of the capacity trading platform and day-ahead auction to understand the risks associated with products procured through these mechanisms, which include:
 - extending the Bulletin Board reporting obligations to service providers operating remote transportation facilities that are ineligible for, or unable to obtain, an exemption under Part 24 of the NGR; and
 - a requirement for service providers to provide AEMO with a greater level of information on receipt and delivery points.

To implement these transparency measures, a number of amendments need to be made to the NGL, the Regulations, Part 18 of the NGR, as well as a number of AEMO-made subordinate instruments. Further detail on these amendments is provided in the remainder of this chapter, which commences with a brief overview of the transparency measures.

7.1 Overview of the reporting framework and other transparency measures

Table 7.1 provides a summary of the key features of the secondary trading reporting framework and other transparency measures that are to be implemented as part of the reform package.

¹⁰¹ Allocation agreements specify the rules that are to be used by the allocation agent to allocate gas that is metered as having been supplied (or deemed to have been delivered) to a multi-user receipt or delivery point between shippers using these points.



Table 7.1: Summary of transparency measures

Design Element	Detail
Reporting framework for secondary capacity trades	
Trades to be reported	Information on the following trades will be reported: all screen and pre-matched trades carried out through the exchange; and bilateral trades of capacity involving forward haul, backhaul, park, loan or compression services (except on distribution pipelines).
Information to be reported	<p>The following information on secondary trades will need to be reported:</p> <ul style="list-style-type: none"> the trade date and service term; the transportation facility that the trade relates to; the type of service purchased and the priority of the service (e.g. firm, as available, interruptible); the type of trade (e.g. screen traded, pre-matched or bilateral) and for bilateral trades (those not concluded on the exchange), whether the trade is on the same or substantially the same terms as the standard operational agreement for the relevant facility; where relevant, the direction of the service and the points between which gas is transported; the amount of capacity procured (MDQ) and for bilateral trades the maximum hourly quantity (MHQ); and the price paid (including, where relevant, the price structure and price escalation mechanism). <p>Note that while information on the receipt and delivery points (or compression service points or in-pipe trade points) is to be reported, AEMO will be required to publish the information on a zonal basis.</p>
When and where information is to be reported	<p>Trades carried out:</p> <ul style="list-style-type: none"> through the exchange (the trading platform) will be reported on the GSH by AEMO as soon as practicable after the trade occurs and published on the Bulletin Board by the end of the gas day; and bilaterally will be reported to AEMO by the earlier of one day after the trade is executed, and the day prior to the trade commencing (D-1), and published on the Bulletin Board.
Responsibility for reporting	<ul style="list-style-type: none"> AEMO will be responsible for reporting trades carried out through the exchange; and Sellers will be responsible for reporting bilateral trades, but they will be able to appoint a capacity transaction reporting agent to report on their behalf.
Reporting of auction information on the Bulletin Board	
Responsibility for reporting	AEMO will be responsible for publishing information on the results of the auction and other information specified in the Auction Procedures on the Bulletin Board.
Allocation arrangements	
Information to be reported	<p>Allocation agents will be required to provide AEMO with the following information for publication on the Bulletin Board:</p> <ul style="list-style-type: none"> a description of the allocation methodology used at the allocation point; a description of the process for joining and leaving the agreement; a description of any charge to become a party to the agreement; and the allocation agent's contact details. <p>This obligation will be limited to allocation agents that operate at points through which gas is injected into or withdrawn from a Part 24 facility.</p>

Design Element	Detail
Extension of Bulletin Board reporting obligations	
Obligations	<p>Service providers that are subject to Bulletin Board reporting obligations will be required to provide AEMO with information on the nameplate rating, short-term and medium-term capacity outlook for each receipt and delivery point.¹⁰²</p> <p>Service providers for remote transportation facilities that would otherwise be excluded from the Bulletin Board reporting obligations but are ineligible for, or unable to obtain, an exemption under Part 24 of the NGR, will be subject to the reporting obligations.¹⁰³</p> <p>The extension of these reporting obligations will enable auction participants and capacity trading platform users that utilise these facilities to assess the risks associated with trying to use the capacity procured through either mechanism.</p>

The only refinement that has been made to these transparency measures since they were approved by the Energy Council, is the inclusion of some additional information that allocation agents will be required to provide to AEMO for publication on the Bulletin Board.

During the consultation process that was conducted in 2017, a number of stakeholders noted that allocation agreements may act as a barrier to trade and that reducing the opaqueness that currently surrounds these agreements by publishing allocation agents' contact details on the Bulletin Board could reduce search and transaction costs. The GMRG therefore recommended that these contact details be published on the Bulletin Board but noted that further work should be carried out in early 2018 to determine whether additional steps could be taken to improve the transparency surrounding these agreements.¹⁰⁴

This work has now been completed and based on feedback provided by a number of shippers and service providers, the GMRG now proposes that, in addition to the allocation agent's contact details, the following information be published on the Bulletin Board in respect of allocation points and allocation agreements:

- a description of the allocation methodology used at the allocation point; and
- a description of the process for joining and leaving the agreement and any charges that are payable to become a party to the agreement.

This change will require Energy Council approval, so the GMRG is seeking further feedback on this proposal (see **Box 7.1**).

¹⁰² See the proposed changes to the definition of 'daily capacity' and 'nameplate rating' in rule 141 and rule 168(2A), Part 18 of the NGR.

¹⁰³ See the proposed change to the definition of 'remote pipeline' in rule 141, Part 18 of the NGR.

¹⁰⁴ The GMRG also recommended that additional work be carried out to determine whether any other reforms are required to reduce the barriers to trade posed by allocation arrangements. To this end, the GMRG has retained Oakley Greenwood to carry out a review of allocation arrangements and to provide advice on whether any further reforms can be implemented to reduce the barriers to trade associated with allocation arrangements. Any proposed reforms arising from this work will need to be approved by the Energy Council and so will not form part of the current changes to the legislative and regulatory framework.



Box 7.1: Questions on allocation arrangements

35. Do you have any concerns with allocation agents that operate at points through which gas is injected into or withdrawn from a Part 24 facility being required to provide AEMO with the information set out in Table 7.1?
36. Is there other information regarding allocation arrangements that should be published to ensure these agreements do not act as a barrier to trade?

7.2 Proposed legal and regulatory framework

To implement the transparency measures outlined above, a number of changes are required to the NGL, the Regulations and the NGR. AEMO will also need to make any necessary changes to the Bulletin Board Procedures to accommodate the provision of information about secondary capacity trades to AEMO and AEMO's reporting of the information on the Bulletin Board. Further detail on the proposed changes to the NGL, NGR and Regulations is provided below.

7.2.1 Proposed changes to the NGL

Changes to the NGL are required to implement the secondary capacity reporting framework, which will involve:

- extending the subject matter of the NGR and the scope of the AEMC's rule making functions to include the reporting of secondary capacity trades;¹⁰⁵
- expanding the scope of AEMO's functions and powers as operator of the Bulletin Board to include the collection and collation of information on secondary capacity trades;¹⁰⁶ and
- requiring shippers, service providers and any other person specified in the Regulations to provide AEMO with information about secondary capacity trades.¹⁰⁷

Changes to the NGL are also required to impose an obligation on allocation agents to provide information to AEMO for publication on the Bulletin Board. This has been done by expanding the list of persons that are required to provide information to AEMO for publication on the Bulletin Board to include allocation agents.¹⁰⁸

7.2.2 Proposed changes to the NGR

Changes to **Part 18 (Natural Gas Services Bulletin Board)** and **Schedule 5 (transitional rules)** of the NGR are required to implement the secondary capacity reporting framework. These changes include provisions that:

¹⁰⁵ See section 74 and Schedule 1 (item 55B) of the NGL.

¹⁰⁶ See sections 218 and 219 of the NGL.

¹⁰⁷ See section 223A of the NGL.

¹⁰⁸ See section 223(1)(b) of the NGL.



- require AEMO to report information provided to it by shippers (and as applicable their capacity transaction reporting agent);¹⁰⁹
- create a registration framework for shippers to gain access to the reporting system and allow capacity transaction reporting agents to be used;¹¹⁰
- set out the obligations that sellers in bilateral trades have to report trades to AEMO, the information to be reported and the timing of the reporting;¹¹¹
- set out the obligation AEMO has to publish information about trades carried out through the GSH on the Bulletin Board;¹¹² and
- require the reporting of secondary capacity trades to commence on 1 March 2019.¹¹³

Changes to Part 18 of the NGR are also required to set out the obligations that allocation agents will have to report information to AEMO. These changes include provisions that:

- specify which allocation agents will be subject to the reporting obligations (i.e. allocation agents at each point through which gas is injected into, or withdrawn from, a Part 24 facility);¹¹⁴
- require allocation agents to register with AEMO and to register Bulletin Board allocation points;¹¹⁵
- set out the information that allocation agents are required to report to AEMO for publication on the Bulletin Board;¹¹⁶ and
- require allocation agents and allocation points to be an existing allocation agent or an existing allocation point (as applicable) for the purposes of the Bulletin Board on the commencement of the rules modifying Part 18.¹¹⁷

Further changes are also required to Part 18 of the NGR to:

- require AEMO to publish the auction information specified in the Auction Procedures (e.g. auction results and auction quantity limits) on the Bulletin Board;¹¹⁸
- impose an obligation on service providers to provide AEMO with information on the nameplate rating, short-term and medium-term capacity outlook for each receipt and delivery point;¹¹⁹ and

¹⁰⁹ See draft rule 195A of the NGR.

¹¹⁰ See draft rules 158C and 158D of the NGR.

¹¹¹ See draft rule 190A of the NGR.

¹¹² See draft rule 195A of the NGR.

¹¹³ See draft transitional rule 2, Part 2, Schedule 5 of the NGR.

¹¹⁴ See definitions of BB allocation point and BB allocation agent in rule 141 of the NGR.

¹¹⁵ See draft rules 158A and 158B of the NGR.

¹¹⁶ See draft rule 170A of the NGR.

¹¹⁷ See draft transitional rule 3, Part 2, Schedule 5 of the NGR.

¹¹⁸ See draft rule 195B of the NGR.

¹¹⁹ See the proposed changes to the definition of 'daily capacity' and 'nameplate rating' in rule 141 and rule 168(2A) of the NGR.



- require service providers of remote transportation facilities that would otherwise be exempt from the Bulletin Board reporting obligations but are ineligible for, or unable to obtain, an exemption under Part 24 of the NGR, to be subject to these obligations.¹²⁰

It is worth noting that the AEMC has recently amended Part 18 of the NGR (National Gas Amendment (Improvement to Natural Gas Bulletin Board) Rule 2017 No. 3))¹²¹ and these changes are due to come into effect on 30 September 2018. The draft amendments to Part 18 are based on that Part as amended by those changes.

7.2.3 Proposed changes to the Regulations

Changes to schedules 3 and 4 of the Regulations will be required to specify provisions in the NGL and NGR that will be classified as civil penalty or conduct provisions. A list of the provisions in the NGL and NGR that are expected to be classified as civil penalty and/or conduct provisions is provided in Appendix A.

Further, the GMRG understands that rule 165 (standard for information or data given under Part 18 or the BB Procedures) and rule 166 (information to be provided in accordance with the BB Procedures), which apply to all BB reporting entities, are to be classified as civil penalty provisions. The classification of these rules as civil penalty provisions will apply to BB allocation agents and persons required to report capacity transaction information.

¹²⁰ See the proposed change to the definition of 'remote pipeline' in rule 141 of the NGR.

¹²¹ AEMC, Final rule determination: National Gas Amendment (Improvements to the Natural Gas Bulletin Board) Rule 2017, 26 September 2017.



8. Harmonisation of Gas Day Start Times and Nomination Cut-Off Times

The final element of the capacity trading reform package involves the implementation of a standard market timetable that will provide for:

- a common gas day start time of 6 am (AEST) across the east coast (and the Northern Territory once it becomes connected to the east coast) that will apply to the operators of all production, pipeline, compressor and storage facilities and in the facilitated markets (e.g. the GSH, STTM and retail markets); and
- a common nomination cut-off time of 3 pm (AEST) for pipelines and other facilities that will be subject to the capacity trading reforms.

This reform, which is to be implemented by 1 October 2019, is intended to:¹²²

- reduce the costs and complexities that market participants operating (or wishing to operate) across multiple facilitated markets currently face, including pipeline operators located at the interface of markets with different gas day start times; and
- increase the interoperability and interconnection between markets and, in so doing, promote participation and liquidity in these markets and trade between locations.

To implement the harmonised times, a number of amendments will need to be made to the NGL, the NGR, the Regulations and a range of AEMO-made procedures. The rule change that the AEMC made in 2017 that provided for the harmonisation of gas day start times in the facilitated markets to occur on 1 April 2021 (National Gas Amendment (Gas day harmonisation) Rule 2017 No. 2)¹²³ will also need to be revoked and remade with the revised commencement date of 1 October 2019. Further detail on these amendments is provided in the remainder of this chapter, which commences with an overview of the harmonisation related reforms.

8.1 Overview of the harmonisation reforms

The table below outlines the current gas day start times and nomination cut-off times in each applicable jurisdiction as well as the harmonised gas day and common nomination cut-off time that will apply from 1 October 2019, as approved by the Energy Council at its 24 November 2017 meeting.

¹²² See AEMC, Final rule determination: National Gas Amendment (Gas day harmonisation) Rule 2017, 16 February 2017, pp. 21-24.

¹²³ Ibid.

Table 8.1: Gas day start times and nomination cut-off times (all times AEST)

State/ Territory	Gas Day Start Time for All Facilities	Nomination Cut-Off Time for Gas Day D for Facilities Subject to Capacity Trading Reforms
Current Gas Day and Nomination Cut-Off Times		
NSW/ACT	6:30 am	2-2:30 pm
SA	6:30 am	3:30 pm
Qld	8:00 am	3-4:00 pm
Tas	6:30 am	1:30 pm
NT	8:30 am	2-2:30 pm
Vic (DTS)	6:00 am	n.a.
Harmonised Gas Day and Nomination Cut-Off Times		
NSW/ACT	6:00 am	3:00 pm
SA		
Qld		
NT		
Tas		
Vic (DTS)		n.a.

The gas day (outside the facilitated markets) is a creature of contract, in that it is the time period used for some processes under contracts such as defining capacity entitlements and scheduling. A new section in the NGL is proposed that allows the NGR to mandate the gas day start time. This, together with the proposed Part 26 of the NGR, is intended to trigger change in law clauses in contracts affected by the reform.

The GMRG understands that the operators of affected facilities will need to undertake a range of activities to ensure compliance with the harmonised gas day start time and, as applicable, the nomination cut-off time. To implement the harmonised times set out above, operators of affected facilities (i.e. the operators of production, transmission and distribution pipelines, compressors and storage facilities in Queensland (Qld), New South Wales (NSW), the Australian Capital Territory (ACT), South Australia (SA), Tasmania (Tas) and the NT, once it is connected to the east coast) will be responsible for:

- establishing and executing a program to make the necessary changes to metering infrastructure, flow control computers, IT and other systems;
- amending business practices and procedures to give effect to the harmonised times; and
- revising their contracts (e.g. gas supply agreements, gas transportation agreements, gas storage agreements and allocation agreements) to reflect the harmonised times.

The time facility operators require to change their infrastructure will depend on a range of factors including whether the changes can be made remotely or manually. In the case of manual meter changes, it will also depend on the number of meters to be changed and the location and ease of access to the meters.

During the GMRG's consultation process a number of stakeholders suggested that transitional arrangements may be required in the NGR or procedures to recognise that some coordination will need to occur between market participants. Accordingly, the GMRG proposes the inclusion of a number of transitional rules in the NGR to assist with the transition to a standard gas day, and as applicable, the standard nomination cut-off time. These transitional rules will provide for:



- AEMO to publish information on the arrangements it will implement to transition to the standard gas day in each gas market (i.e. STTM, GSH and retail markets) by 1 April 2019; and
- facility operators that provide services to third parties to publish information about the operational arrangements they will put in place to transition to the standard gas day and standard nomination cut-off time (if applicable) by 30 June 2019.

The information that is to be published is expected, for example, to set out:

- the arrangements for nomination and scheduling on the last gas day before the new timetable applies to the facility (if it will be shorter than 24 hours); and
- any adjustments to capacity entitlements for that day for nomination, scheduling and billing purposes and the proposed date for the transition (or parts of it, such as metering), if earlier than the transition date.

While the amendments to the NGL and NGR require facility operators to implement the gas day start time and publish information in accordance with transitional rules, they do not mandate how this is to be done. For example, the last gas day in some jurisdictions before the transition will be shorter than 24 hours, and nominations will need to take that into account or be for 24 hours and then be pro-rated down by the facility operator. The NGR does not set out what approach is to be taken but does require facility operators to publish what the facility is doing on that day (information as may reasonably be expected to be required by facility users, the operators of connected facilities or AEMO).

In addition to these transitional rules, a number of transitional measures will need to be put in place to deal with the effect of differences in gas day start times and nomination cut-off times in the capacity trading platform and day-ahead auction. The close of trade on the capacity trading platform will, for example, need to be set at an earlier time while the day-ahead auction will need to be concluded later. This will be reflected in the Capacity Transfer and Auction Procedures to be developed by AEMO. Provisions have also been included in the Code¹²⁴ to require service providers operating at the interface of markets to accommodate the differences in gas days.

The GMRG is interested in hearing stakeholders' views on these transitional arrangements and whether any additional transitional arrangements may be required. Some specific questions that the GMRG would like to obtain feedback on are set out in the box below.

¹²⁴ See clauses 2 and 18, Part 5 of the Operational Transportation Service Code.



Box 8.1: Questions on transitional arrangements

37. Are the provisions in the NGL and Part 26 of the NGR sufficient to trigger change of law provisions and enable changes required to existing contracts to implement the harmonisation of the gas day start time and, as applicable, the nomination cut-off time? If not, why?
38. With regard to the information required to be published by facility operators:
- Do you think transitional rule 4, Part 6 (Schedule 5) will facilitate coordination between interconnected facilities and AEMO without being overly burdensome on facility operators? If not, why?
 - Is the 30 June 2019 cut-off date for publication appropriate? If not, when should this information be required to be published and why?

8.2 Legal and regulatory framework

To implement the harmonised gas day start time and nomination cut-off time, a number of changes are required to the NGL, the Regulations and the NGR. Once the new provisions in the NGL, NGR and Regulations are implemented, AEMO will amend the Retail Market Procedures in NSW/ACT, Qld and SA, the STTM Procedures and any other procedures or subordinate instruments affected by the change in accordance with the standard procedure change process.

Further detail on the proposed changes to the NGL, NGR and Regulations is provided below.

8.2.1 Proposed changes to the NGL

Changes to the NGL are required to:¹²⁵

- extend the subject matter of the NGR to include the standard market timetable;¹²⁶
- define the standard gas day as the period of 24 hours starting at the time specified in the NGR;¹²⁷
- specify that persons required by the NGR to implement the standard market timetable must do so in accordance with the NGR;¹²⁸
- provide a check on claims for cost pass through under change in law clauses in contracts arising out of the transition to the harmonised gas day;¹²⁹ and

¹²⁵ The SA Minister will also be given the power to make the initial Rules to implement the standard market timetable

¹²⁶ This change is reflected in the proposed amendment to Schedule 1 (Subject matter for the NGR) of the NGL (item 69A).

¹²⁷ See section 2 of the NGL.

¹²⁸ See section 83B(3) and section 83C of the NGL.

¹²⁹ See section 83D of the NGL.



- permit service providers to enter into agreement for access that differ from applicable access arrangements subject to complying with the standard market timetable.¹³⁰

The changes to the NGL will also give the SA Minister the power to revoke and remake the rule the AEMC made in 2017 that provided for the harmonisation of gas day start times in the facilitated markets to occur on 1 April 2021,¹³¹ so the commencement date can be changed from 1 April 2021 to 1 October 2019.

8.2.2 Proposed changes to the NGR

Changes to the NGR are required to:

- set out the standard gas day start time and require the relevant facility operators to implement the standard gas day;¹³²
- set out the standard nomination cut-off time for transportation facilities that are subject to the capacity trading reforms and require the relevant transportation facilities to implement the standard nomination cut-off time;¹³³
- require facility operators to ensure that the measurement and recording of quantities of gas in particular circumstances correspond to the standard gas day (or periods shorter than a gas day if the first such period starts at the start of the standard gas day and last such period ends at the end of the standard gas day);¹³⁴ and
- provide for a number of transitional rules, which include the requirement for:¹³⁵
 - AEMO to publish information on the arrangements for transition to the standard gas day in each gas market prior to 1 April 2019; and
 - facility operators that provide services to third parties to publish information (as may be reasonably expected to be required by users of the facility, the operators of connected facilities or AEMO) on the operational arrangements to transition to the standard gas day and standard nomination cut-off time (if applicable) prior to 30 June 2019.

These changes are set out in **Part 26 (Standard market timetable)**, which is a new part that will be added to the NGR, and **Schedule 5 (transitional rules)** of the NGR.

8.2.3 Proposed changes to the Regulations

Changes to the Regulations will be required to specify those provisions in the NGL and NGR that will be classified as civil penalty or conduct provisions, which will be set out in **Schedule 3** and **Schedule 4 of the Regulations**. A list of the provisions in the NGL and NGR that are expected to be classified as civil penalty and/or conduct provisions is provided in Appendix A.

¹³⁰ See section 322 of the NGL.

¹³¹ AEMC, Final rule determination: National Gas Amendment (Gas day harmonisation) Rule 2017, 16 February 2017.

¹³² See draft rule 678(1) and (3) of the NGR.

¹³³ See draft rule 678(2) and (4) of the NGR.

¹³⁴ See draft rule 678(6) and (7) of the NGR.

¹³⁵ See Part 6, Schedule 5 of the NGR.



9. Key timings

The tables below provide a summary of:

- the commencement dates for the key reform measures (see Table 9.1); and
- the timing associated with the various obligations for the different categories of facilities and market participants, including:
 - the transportation facilities and allocation agents that are in existence when parts 18 and 24 of the NGR commence (see Table 9.2);
 - facilities that become Part 24 facilities after the Part 24 commencement date, either because they were commissioned after this date or an exemption has been revoked (see Table 9.3); and
 - the Northern Territory facilities (see Table 9.4).

These tables have been developed on the basis that amendments to the NGL and NGR will commence before 1 December 2018. Further detail on these timings can be found in the transitional rules in Schedule 5 of the NGR.

Table 9.1: Commencement of key reform measures

Date	Activity	Reference
30 September 2018	2017 Bulletin Board Rule changes come into effect, replacing Part 18. This is the version of Part 18 referred to in this table (as amended by the capacity reform package)	National Gas Amendment (Improvements to Natural Gas Bulletin Board) Rule 2017 No. 3
After 30 September 2018 but before 1 December 2018	NGL amendments come into effect	Defined in Schedule 5 as the Division 2D commencement date
On or after Law start date but before 1 December 2018	Minister made rules come into effect This table assumes all new rules and amendments will come into effect on the same date	In Schedule 5, this is defined as follows: Part 2: commencement date (for Part 18 amendments) Part 3: Part 24 commencement date Part 4: Part 25 commencement date
	Minister made Code comes into effect	Part 24, rule 595(2)
1 December 2018	AEMO must make and publish the initial Capacity Transfer and Auction Procedures	Schedule 5, Part 1, rule 2(1)
	AEMO must make and publish the initial transportation service point register	Schedule 5, Part 3, rule 6(1)
1 December 2018	AER must develop and publish initial guidelines under new rule 665(3) (nomination and scheduling records)	Schedule 5, Part 4, rule 4(2)
	AER must develop and publish initial guidelines under new rule 666(4) (renomination records)	Schedule 5, Part 4, rule 5(2)
1 February 2019	Transition period in relation to a compression facility commences (such	Schedule 5, Part 5



Date	Activity	Reference
	that Part 24 compression service facilities must start reporting to AEMO)	
1 March 2019	First day of capacity auction	Schedule 5, Part 4, definition of 'capacity auction start date' Schedule 5, Part 4, rule 2
	First day on which transportation service providers for Part 24 facilities are required by the Rules to give effect to operational transfers and service continuity arrangements. Contractual obligations are not affected	Schedule 5, Part 3, rule 7 Part 24, rules 638 and 639 This is expected to be the first day of trading new capacity products on the CTP/GSH
	Subdivision 5.7 of Part 18 applies and capacity transaction reporting is mandatory from this date (except for transactions for capacity on an NT facility, if the interconnector commissioning date is after the Part 24 commencement date)	Schedule 5, Part 2, rule 2(1)
	First day from which an auction facility operator must keep and maintain nomination and scheduling records	Schedule 5, Part 4, rule 4(1) Part 25, rule 665(1)
	First day from which transportation facility user for an auction facility must keep renomination records	Schedule 5, Part 4, rule 5(1) Part 25, rule 666(1)
2 March 2019	First day for use of auctioned capacity	Follows from day-ahead nature of auction
	First day for use of transportation capacity purchased through the GSH	Follows from day-ahead nature of product
1 April 2019	AEMO must publish information about the arrangements for transition to the standard market timetable	Schedule 5, Part 6, rule 3
30 June 2019	Facility operator for a natural gas facility must publish information about its arrangements for the transition to the standard market timetable	Schedule 5, Part 6, rule 4
1 October 2019	Standard market timetable comes into effect	Schedule 5, Part 6, definition of 'Part 26 transition date' and rule 2
First anniversary of initial Rules start date	First day for Code modifications to come into effect (unless urgent or minor)	Schedule 5, Part 3, rule 2
1 March 2021	Grandfathering of rights for the purposes of the capacity auction ceases at 6:00 am	Schedule 5, Part 4, rule 1 definition of 'protected rights transition period'



Table 9.2: Key timing for initial Part 24 facilities and allocation agents (including facilities that will apply for an exemption)

Date	Activity	Reference
Rules start date on or before 1 December 2018	Trigger date for being an initial Part 24 facility Will include NT facilities if the commissioning date for the NT interconnector is on or before the rules start date	Schedule 5, Part 3, rule 5
	Trigger date for being an existing BB allocation agent and existing BB allocation point	Schedule 5, Part 2, rule 3
Rules start date + 20 business days	Last date for the transportation service provider for an initial Part 24 facility (if not the subject of a transitional exemption) to apply to register under Part 24	Schedule 5, Part 3, rule 5 Part 24, rule 618
	Last date to apply to register an initial Part 24 facility under Part 24 (if not the subject of a transitional exemption)	Schedule 5, Part 3, rule 4 Part 24, rule 619
	Last date for existing BB allocation agent to apply to register under Part 24	Schedule 5, Part 2, rule 3 Part 18 rule 158A
	Last date to apply to register an existing BB allocation point under Part 24	Schedule 5, Part 2, rule 3 Part 18 rule 158B
Rules start date + 40 business days	Obligation to publish operational agreement	Part 24, rule 631(1)
1 March 2019	Existing auction facility becomes subject to the capacity auction	Schedule 5, Part 4, rule 2 Schedule 5, Part 4, definition of 'capacity auction start date'



Table 9.3: Key timing for new Part 24 facilities

Date	Activity	Reference
Date of commissioning / exemption ceases to apply or expires (application date)	Facility becomes a Part 24 facility	Definition of 'Part 24 facility'
Application date + 20 business days	Transportation service provider must apply to AEMO to register under Part 24	Part 24, rule 593(1) definition of 'application date' and rule 618(2)
	Transportation service provider for a Part 24 facility must apply to AEMO to register the part 24 facility and to be registered as the transportation service provider for the Part 24 facility	Part 24, rule 619(2)
Application Date + 40 business days	Obligation to publish standard operational agreements	Part 24, rule 631(1)
Application date + 80 business days.	Auction facility becomes subject to the capacity auction	Part 25, rule 654(1)

Table 9.4: Key timings for NT facilities if the Northern Gas Pipeline is commissioned after the Part 24 commencement date

Date	Activity	Reference
30 September 2018	2017 Bulletin Board Rule changes come into effect, replacing Part 18. This is the version of Part 18 referred to in this table (as amended by capacity reform package).	National Gas Amendment (Improvements to Natural Gas Bulletin Board) Rule 2017 No. 3
Date of commissioning of the NT Interconnector (commissioning date)	NT facilities fall within the scope of the operation of Part 24 and 25	Part 24 exemption ceases – Part 24, rule 610(3)
Commissioning date + 20 business days	NT facility operators must apply to register with AEMO under Part 24 (unless already registered)	Part 24, rule 593(1) definition of 'application date', 'Part 24 facility', 'exempt transportation facility' and rule 618(2)
	Transportation service provider for a Part 24 facility must apply to AEMO to register the Part 24 facility and to be registered as the transportation service provider for the Part 24 facility	Part 24, rule 619(2)
Commissioning date + 40 business days	NT facility must publish standard operational agreement	Part 24, rule 631(1)
Commissioning date + 80 business days	First day of NT capacity auction	Part 25, rule 654(1)
	Subdivision 5.7 (of Part 18) applies to secondary capacity transactions for capacity on an NT facility and capacity transaction reporting is mandatory from this date	Schedule 5, Part 2, rule 2(3)
Commissioning date + 90 days	BB facilities that are also NT facilities fall within the scope of the operation of Part 18	Part 18, rule 141 definition of 'NT application date'. Part 18, rule 143(3)
Commissioning date + 90 days + 20 business days	NT facility operators must apply to register with AEMO under Part 18 (unless already registered)	Part 18, rule 150(2)
	Operators of BB facilities that are also NT facilities must apply to register with AEMO under Part 18	Part 18, rule 151(2)



The GMRG is interested in hearing stakeholders' views on the timings outlined in these tables. Some specific questions that the GMRG would like to obtain feedback on are set out in the box below.

Box 9.1: Questions on key timings

39. Do you have any concerns with the timings outlined Chapter 9? If so, what are they and how do you suggest the timings are adjusted?
40. In the event the capacity trading reforms are applied in the Northern Territory, do you believe the timings set out in Table 9.4 are appropriate? For example:
 - Part 18 of the NGR uses 'NT application date', defined as the date falling 90 days after the date on which the first NT interconnector is commissioned, to determine when Part 18 applies to facilities in the NT. Following this 90-day period, BB facilities that are also NT facilities have 20 business days to apply to AEMO to register under Part 18. In practice, this means that NT auction facilities may be subject to the capacity auction (which commences on the date falling 80 business days after commissioning), prior to publishing information on the Bulletin Board. Should the Part 18 obligations come into effect for NT auction facilities prior to the commencement of the auction?



Appendix A Summary of proposed civil penalty and conduct provisions

Table A.1 Proposed civil penalty and conduct provisions

Provision	Civil Penalty or Conduct Provision
NGL	
s. 83C (Obligation to implement the standard market timetable in accordance with the NGR)	Civil penalty
s. 91BRR (5) (A service provider must comply with AEMO's direction to rectify or take specified measures concerning suspected breach of Capacity Trading and Auction Procedures)	Civil penalty
s. 91BRS (1) (A transportation service provider other than AEMO must register with AEMO unless exempted under the Rules)	Civil penalty
s. 91FEE (Obligation to give capacity auction information to AEMO)	Civil penalty
s. 223A (Obligation to give information to AEMO about secondary capacity transactions)	Civil penalty
s. 228B (a transportation service provider for non-exempted facility must publish initial and, where required, amended standard operational agreement on its website)	Civil penalty
s. 228C (a transportation service provider must on request offer to enter into (and if offer is accepted, enter into) standard operational agreement)	Civil penalty and conduct provision
s. 228I (a transportation facility user must, when requested, state the terms under which it will transfer operational transportation capacity under an operational transportation service agreement)	Conduct provision
s. 228J (transportation service providers, transportation facility users and their associates must not engage in conduct for purpose of preventing or hindering access to an operational transportation service)	Civil penalty and conduct provision
s. 228K (a transportation service provider must not engage in inefficient price discrimination when providing operational transportation services)	Civil penalty and conduct provision
Part 18 of the NGR	
Rule 158A(1) (A BB allocation agent must apply to register under Part 18)	Civil penalty
Rule 158A(2) (An application to register must be made no later than 20 business days after they become a BB allocation agent)	Civil penalty
Rule 158B(1) (A BB allocation agent must apply to register the allocation point under Part 18)	Civil penalty
Rule 158B(2) (An application to register the allocation point must be made no later than 20 business days after they become a BB allocation agent)	Civil penalty
Rule 158B(3) (If the identity of the BB allocation agent changes this must be notified to AEMO)	Civil penalty
Rule 158B(4) (The notice under (3) must be given no later than 5 business days after the change takes effect)	Civil penalty
Rule 158B(5) (An application for registration under (3) must be made no later than 5 business days after the change takes effect)	Civil penalty



Provision	Civil Penalty or Conduct Provision
Rule 158(D)(2) (A transportation facility user that appoints a person to act as a capacity transaction reporting agent must ensure the agent complies with the facility user's obligations under Part 18)	Civil penalty
Part 24 of the NGR	
Rule 593(4) (A person required to give information or data to AEMO or the AER under Part 24 must give information, maintain equipment from which the information was derived, and perform calculations in accordance with the auction information standard)	Civil penalty and conduct provision
Rule 611(10) (A service provider that obtains an exemption for a facility must notify the AER without delay if circumstances change)	Civil penalty
Rule 612(2) (A service provider that obtains an exemption for a facility must comply with any conditions of the exemption)	Civil penalty
Rule 618(1) (A service provider for a Part 24 facility must apply to AEMO to register under this Part)	Civil penalty
Rule 618(2) (An application for registration under rule 618(1) must be made no later than 20 business days after the person becomes a service provider for a Part 24 facility)	Civil penalty
Rule 619(1) (A service provider for a Part 24 facility must apply to AEMO to register the facility under this Part)	Civil penalty
Rule 619(2) (An application for registration under rule 619(1) must be made no later than 20 business days after the person becomes a service provider for a Part 24 facility and new transportation service provider must apply to register under this Part)	Civil penalty
Rule 621(1) (If the identity of the transportation service provider changes this must be notified to AEMO and new responsible transportation service provider must apply to register under this Part)	Civil penalty
Rule 621(2) (If the responsible transportation service provider for a Part 24 facility changes this must be notified to AEMO)	Civil penalty
Rule 621(3) (The notification under subrules (1) and (2) must be made no later than 5 business days after the change takes effect)	Civil penalty
Rule 621(4) (An application for registration under subrules (1) and (2) must be made no later than 5 business days after the change takes effect)	Civil penalty
Rule 625 (Service provider to give information about facility agreements for purposes of giving effect to trades)	Civil penalty
Rule 626(1) (Service provider must propose and have approved the specification of service points and allocation to zones)	Civil penalty
Rule 626(2) (The proposal under rule 626(1) must be made within the time specified in the Capacity Transfer and Auction Procedures and include information reasonably required by AEMO)	Civil penalty
Rule 627(3) (Service provider for a Part 24 facility must undertake modelling and an assessment of the proposed zone and provide results to AEMO)	Civil penalty
Rule 631(1) (Service provider for a non-exempt facility must publish a standard operational agreement)	Civil penalty
Rule 631(2) (If a service provider becomes aware the standard operational agreement does not comply with the Rules or Code it must publish a revised agreement as soon as practicable)	Civil penalty
Rule 632(1) (A standard operational agreement must incorporate the standard terms, facility specific terms and not incorporate other terms and conditions except as permitted by the Rules or Code)	Civil penalty and conduct provision



Provision	Civil Penalty or Conduct Provision
Rule 632(2) (Service provider must ensure the facility specific terms comply with Rules and Code)	Civil penalty and conduct provision
Rule 632(3) (Service provider must ensure that any charges are consistent with the cost recovery principles in rule 634)	Civil penalty and conduct provision
Rules 634 (2) to (7) (Service provider must comply with subrules (2) to (7) in rule 634)	Civil penalty and conduct provision
Rule 635(4) (A service provider must comply with a notice issued by the AER to prepare a new standard operational agreement)	Civil penalty provision
Rule 636(1) (A non-exempt service provider must publish the standard operational agreement and keep it up to date)	Civil penalty and conduct provision
Rule 637(1) (A service provider in receipt of a request for a standard operational agreement must prepare and offer to enter into the agreement within time specified in NGR)	Civil penalty
Rule 638(1) (A service provider must give effect to an operational transfer notified by AEMO or by parties to bilateral trades)	Civil penalty and conduct provision
Rule 639(1) (A service provider must give effect to an operational transfer of capacity and continue to do so for up to 14 days if the seller's primary facility agreement is terminated)	Civil penalty and conduct provision
Rule 639(4) (A service provider must give effect to an operational transfer of capacity and continue to do so for the term of the trade if the seller's primary facility agreement is suspended)	Civil penalty and conduct provision
Rule 640(1) (A service provider must within 30 days of a request made by a user an amending agreement that complies with rule 640(2))	Civil penalty and conduct provision
Rule 640(3) (If a service provider receives a request under rule 640(1) it must negotiate in good faith for the purposes of agreeing the terms of the amending agreement)	Civil penalty provision
Part 25 of the NGR	
Rule 649 (1) (Information standard for the provision of information to AEMO and the AER)	Civil penalty and conduct provision
Rule 649(3) (Auction facility operator to update information provided to AEMO)	Civil penalty
Rule 650(2) (Standard operational agreement to give effect to auction service priority principles)	Civil penalty and conduct provision
Rule 650(3) (Scheduling process must not result in lower tier services being scheduled ahead of the auction service)	Civil penalty
Rule 654(2) (Auction facility operators to provide AEMO with the information required to determine auction quantity limits and amounts payable in accordance with the Auction Procedures)	Civil penalty
Rule 655(3) (Auction facility operators to give effect to auction results notified by AEMO)	Civil penalty
Rule 660(2) (Auction participant to pay AEMO all amounts payable in the time and manner set out in the Auction Agreement)	Civil penalty



Provision	Civil Penalty or Conduct Provision
Rule 661(1) (Auction participants must comply with general market conduct requirements)	Civil penalty and conduct provision
Rule 662(3) (Auction participants must not manipulate or attempt to manipulate the capacity auction)	Civil penalty and conduct provisions
Rule 663(1) (Transportation facility users must not make nominations or re-nominations that are false, misleading or likely to mislead)	Civil penalty
Rule 665(1) and (5) (Auction facility operators must keep and maintain nominations and scheduling records and provide to the AER on request)	Civil penalty
Rule 666(1) and (4) (Transportation facility users that make a material renomination must keep a record of specified information and provide any additional information requested by the AER to substantiate and verify the reasons for the renomination)	Civil penalty provision
Rule 669(5) (Auction facility operator must pay amount payable to AEMO by no later than 12 noon on payment date)	Civil penalty and conduct provisions
Rule 672(4) (Auction facility operator must pay amount payable to AEMO under a revised statement by no later than 12 noon on payment date)	Civil penalty and conduct provisions
Rule 674(1) (Persons required to pay AEMO an amount must pay interest on any unpaid monies at the default interest rate)	Civil penalty and conduct provisions
Part 26 of the NGR	
Rule 678(3) (A facility operator for a natural gas facility must implement the standard gas day)	Civil penalty
Rule 678(4) (A Part 24 facility operator must implement the standard nomination cut-off time)	Civil penalty
Rule 678(6) (A facility operator for a natural gas facility must ensure the equipment used for the measurement and recording of quantities does so for the standard gas day)	Civil penalty