

Information Paper:

Consultation on Capacity Trading Reforms: Standardisation and Capacity Trading Platform

The GMRG has now released a Consultation Paper on the Standardisation and Capacity Trading related reforms and invites stakeholder feedback

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

These reforms were recommended by the Australian Energy Market Commission (AEMC) in its *Eastern Australian Wholesale Gas Market and Pipelines Framework Review (East Coast Review)* and include the development of:

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

Further detail on the key elements of these reforms can be found in Figure 1.

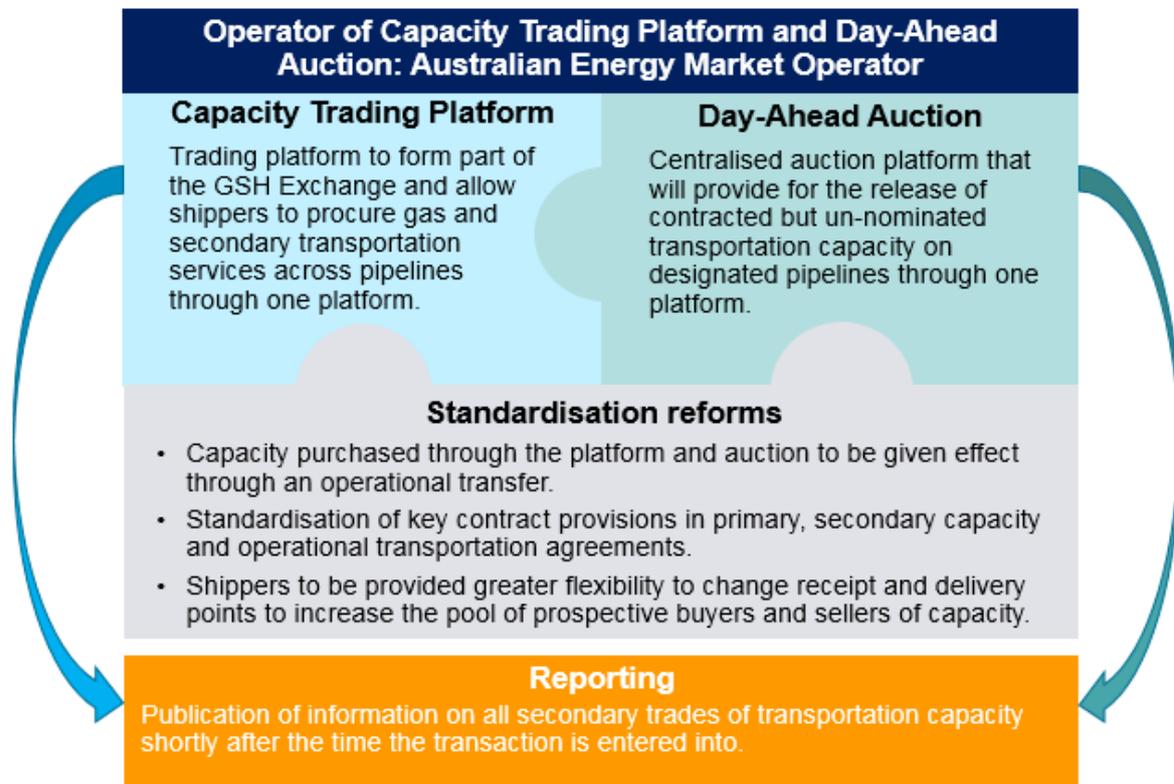
Work on the design of the capacity trading reforms commenced in early 2017 and was initially expected to be completed during 2018, but following a request from the Hon. Josh Frydenberg MP, Minister for the Environment and Energy, the GMRG agreed to make its recommendations by the end of 2017. In keeping with the accelerated timetable outlined above, the GMRG intends to make its final recommendations on the following matters to SCO and the Energy Council in November 2017:

- the standardised contractual arrangements that will be required to underpin the capacity trading platform and day-ahead auction and other measures to reduce the barriers to secondary capacity trading and participation in the day-ahead auction; and
- the design of the capacity trading platform, including the standardised products that will be available on the exchange and the operational, financial contractual and governance arrangements required to underpin the capacity trading platform.

To help inform the GMRG's consideration of these issues, has prepared the **Standardisation and Capacity Trading Platform Consultation Paper**. A separate consultation paper on the day-ahead auction is expected to be released in October/November.



Figure 1: Capacity trading reforms



Scope of consultation

To progress the capacity trading reforms outlined above, the GMRG established a number of project teams (Standardisation, Capacity Trading Platform and Day-Ahead Auction) to carry out the detailed design and development work, with the teams consisting of a mix of members drawn from industry, consumer groups, market bodies and other industries.

The project teams have met regularly over the last six months to discuss the design of the reforms, including consideration of the required and preferred outcomes set out by the AEMC in its *East Coast Review*. The GMRG has benefited from, and greatly appreciates, the effort and resources that project team members and AEMO have put into considering the design options and providing their advice to the GMRG.

The feedback and advice provided by the project teams, AEMO and the GMRG's legal advisor, Johnson, Winter & Slattery (JWS) has informed the development of the Standardisation and Capacity Trading Platform Consultation Paper, which comprises two parts:

- **Part A: Standardisation related reforms** –This part of the consultation paper focuses on:
 - the standardised contractual arrangements that will underpin the capacity trading platform and day-ahead auction and the associated governance arrangements;
 - the options for achieving greater receipt and delivery point flexibility; and



- other measures that could be put in place to reduce the barriers to secondary capacity trading.

The development of this part of the consultation paper has been informed by the work carried out by the Standardisation project team and advice from the GMRG's legal advisor, Johnson, Winter & Slattery (JWS). This part should be read in conjunction with Attachment 1, which contains a copy of the draft Operational GTA Code that will establish the contractual terms between secondary shippers and service providers for capacity procured through the trading platform, day-ahead auction and bilaterally.

- **Part B: Capacity trading platform** – This part of the consultation paper has been prepared with the assistance of AEMO and focuses on
 - the end-to-end design of the capacity trading platform and the standardised products that will be available on the exchange;
 - the arrangements required to adequately manage and allocate risks associated with secondary trading;
 - the operational, financial, contractual and governance arrangements required to underpin the capacity trading platform.

While appearing in two parts, the reforms are interrelated and dependent upon each other to achieve their objectives. For example, the standardisation of contract terms and other measures to reduce barriers to capacity trading will be key inputs to, and likely determinants of, the design of the capacity trading platform and auction. The two parts should therefore be read in conjunction with each other.

Next steps

The GMRG is seeking written feedback on the consultation paper by **5 pm (AEST) Wednesday 4 October 2017**. A range of questions are provided in the paper to assist stakeholders with their responses. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern.

Stakeholders are also invited to attend a public forum on the content of the consultation papers. The forum details are as follows:

Date: Thursday 14 September 2017

Time: 2 pm – 5 pm

Location: The Grace Hotel, 77 York Street, Sydney

Should you wish to attend the public forum please RSVP to admin@gmrq.coagenergycouncil.gov.au by **5pm AEST Friday 8 September 2017** outlining the names and contact details of attendees from your organisation and provide details of any dietary or access requirements you might have.

Feedback received through this consultation process will inform the GMRG's recommendations on the final design of the standardisation related reforms and the capacity trading platform, which are expected to be provided to the Energy Council in November 2017 for its consideration.