

**GAS SUPPLY HUB EXCHANGE AGREEMENT
IMPACT & IMPLEMENTATION REPORT – SUMMARY SECTION**

Issue Number	GSH IIR 15		
Impacted Jurisdiction (s)	Queensland, New South Wales, Australian Capital Territory, Victoria, South Australia, Northern Territory		
Proponent	Trent Morrow	Company	Australian Energy Market Operator
Affected Gas Markets(s) <ul style="list-style-type: none"> ▪ Retail ▪ Wholesale ▪ Bulletin Board ▪ STTM 	Gas Supply Hub	Consultation process (Ordinary or Expedited)	Ordinary
Industry Consultative forum(s) used	PCT Reference Group, GSH Reference Group, GWCF	Date Industry Consultative forum(s) consultation concluded	10 August 2018
Short Description of change(s)	Amendments to the GSH Exchange Agreement for the implementation of COAG Energy Council's pipeline capacity trading reforms.		
Procedure(s) or Documentation impacted	GSH Exchange Agreement, GSH Settlement and Prudential Methodology		
Summary of the change(s)	Amendments to establish the Capacity Trading Platform within the Gas Trading Exchange. Amendments to the GSH Exchange Agreement cover participation, trading, settlement and delivery of capacity products.		
I&IR Prepared By	Trent Morrow	Approved By	Peter Geers
Date I&IR published	20 August 2018	Scheduled date for end of consultation under EA 3.3, 3.4 or 3.6	28 September 2018
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IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

1. Description of change(s) and reasons for change(s)

On 29 June 2018 the Council of Australian Governments (COAG) Energy Council (Energy Council) agreed to implement the legal and regulatory framework required to give effect to the capacity trading reform package.

The capacity trading reform package applies to transmission pipelines and compression facilities operating under the contract carriage model. The package provides for the implementation of:

1. A capacity trading platform (CTP) that will form part of the gas trading exchange (Gas Supply Hub (GSH)) and provide for:

- exchange-based trading of commonly traded transportation products (including firm forward haul services, firm park services and firm compression services on stand-alone compressors); and
- a listing service for other more bespoke products.

Amendments to GSH Exchange Agreement required to implement the Capacity Trading Platform reform are the subject of this consultation.

2. A day-ahead auction (DAA) of contracted but un-nominated (CBU) 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. Shippers will be able to use the DAA to procure forward haul transportation services (with separate products offered in both directions on bi-directional pipelines); backhaul services on single direction pipelines (or parts of pipelines) and stand-alone compression services.

3. A range of measures to facilitate capacity trading and the DAA, including the development of standard operational transportation service agreements (standard OTSA) that will establish the standard contract terms between service providers and shippers for capacity procured through the CTP and DAA.

4. A reporting framework for secondary capacity trades and a number of other transparency measures that are designed to facilitate capacity trades and the DAA.

5. A standard market timetable that provides for:

- a common gas day start time across the east coast (and Northern Territory once connected to the east coast) that will apply to all production, pipeline, compression and storage facilities and in the facilitated markets; and
- a common nomination cut-off time and common auction service nomination cut-off time for transportation facilities that will be subject to the capacity trading reforms.

<p>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Exchange Agreement ▪ Other 	<p><u>GSH Exchange Agreement</u></p> <ul style="list-style-type: none"> • Participation, trading, settlement and delivery of capacity products. <p><u>GSH Settlement and Prudential Methodology</u></p> <ul style="list-style-type: none"> • Settlement and prudential calculations for capacity products. <p>The capacity products outlined in the GSH Exchange Agreement are defined with reference to the Zones Specification – Initial Consultation Paper¹ (link)</p> <p>Implementation of the capacity trading reform package also requires the establishment of Capacity Transfer and Auction Procedures. A separate Impact and Implementation Report has been prepared and published on the AEMO website for the consultation on the Capacity Transfer and Auction Procedures.</p> <p>Consistent with the approach that is usually employed when changes of this nature are made to the legal and regulatory framework, the final versions of the NGL, Regulations, NGR and Code will only be published once they are made. Amendments to the NGL required to implement the capacity trading reform package were tabled in the South Australian Parliament on 2 August² (link).</p> <p>In the absence of the NGR and Code, GMRG prepared an information paper that summarises the final design of the capacity trading reforms³ (link). GMRG also prepared and published a guidance note on AEMO’s role, the requirements for the Capacity Transfer and Auction Procedures and the Bulletin Board Procedures, registration arrangements and the recovery of AEMO’s costs⁴ (link).</p> <p>The Capacity Transfer and Auction Procedure and the GSH Exchange Agreement amendments should be reviewed in conjunction with the GMRG’s information paper and guidance notes.</p>
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¹ <https://www.aemo.com.au/Gas/Pipeline-Capacity-Trading/Specification-of-Service-Points-Zones-and-Segments>

² [https://www.legislation.sa.gov.au/LZ/B/CURRENT/NATIONAL%20GAS%20\(SOUTH%20AUSTRALIA\)%20\(CAPACITY%20TRADING%20AND%20AUCTIONS\)%20AMENDMENT%20BILL%202018.aspx](https://www.legislation.sa.gov.au/LZ/B/CURRENT/NATIONAL%20GAS%20(SOUTH%20AUSTRALIA)%20(CAPACITY%20TRADING%20AND%20AUCTIONS)%20AMENDMENT%20BILL%202018.aspx)

³ <http://gmrq.coagenergycouncil.gov.au/publications/capacity-trading-reform-package-legal-and-regulatory-framework-information-paper>

⁴ <http://gmrq.coagenergycouncil.gov.au/publications/guidance-note-aer-aemo-roles-under-capacity-trading-reform-package>

<p>3. The high level details of the change(s)</p> <p>including:</p> <ul style="list-style-type: none"> ▪ A comparison of the existing operation with changed operation ▪ A marked up version as amended (see section 1) 	<p>Capacity products will be established within the Gas Trading Exchange.</p> <p>Amendments to the Exchange Agreement include:</p> <ul style="list-style-type: none"> • Delivery process for capacity transactions. • Provisions for the termination of a Primary Facility Agreement, where the holder of that agreement is the seller of a capacity transaction. • Arrangements for capacity transactions in the event of default and termination of a Trading Participant. • Product specifications for capacity products. <p>AEMO will make the amendments to the Exchange Agreement following the enactment of amendments to the NGL and NGR by the SA parliament.</p>
<p>4. Assessment of significant of change</p> <p>(eg: material, non-material or non-substantial)</p>	<p>Implementation of the Capacity Trading Platform is a material change for industry.</p>

ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

<p>5. Overall Industry Cost / benefit (tangible / intangible / risk) analysis and/or cost estimates</p>	<p>The capacity trading 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.</p> <p>Implementation of the Capacity Trading Platform will require expenditure by AEMO on changes to market systems and legal artefacts as well as on market and operational readiness activities.</p> <p>The process for the communication and transfer of capacity between shippers by facility operators is outlined in the Capacity Transfer and Auction Procedures. AEMO is consulting the Capacity Transfer and Auction Procedures in conjunction with the amendments to the Exchange Agreement.</p>
<p>6. The likely implementation effect of the change(s) on stakeholders</p> <p>(e.g. Industry or end-users)</p>	<p>New capacity products will be listed on the exchange for trading by members.</p> <p>Existing trading participants will have automatic access to the new capacity products. Capacity participant will be a new category of participation that allows an organisation to trade capacity products only.</p>

	<p>Capacity products will utilise existing GSH trading, reporting, settlement and prudential arrangements.</p> <p>Facility operators will be required to process the transfer of capacity between shippers resulting from the trading of capacity products.</p>
7. Testing requirements	<p>New reports associated with capacity trading and the capacity auction will be available through the GSH reporting system. There will also be additional information relevant to capacity transactions reported to members through existing reports.</p> <p>Members will be given the opportunity to test the trading, reporting, settlement and delivery arrangements for the new capacity products during a market trial scheduled for January and February 2019.</p> <p>AEMO will provide training on the changes to the GSH, as well as the broader pipeline capacity trading reforms, to industry in November 2018.</p>
<p>8. AEMO's preliminary assessment of the proposal's compliance with rule 540(1) NGR:</p> <ul style="list-style-type: none"> - consistency with NGL and NGR, - appropriate with regard to national gas objective - appropriate with regard to likely compliance costs for Operator or Members 	<p>The pipeline capacity trading reforms will be implemented through the amendments to the NGL and NGR. Trading of capacity products through the Gas Trading Exchange will be voluntary.</p> <p>Prior to commencing the trading of capacity products, members will need to ensure that they have established the necessary contractual arrangements with the relevant facility operator to facilitate the transfer of capacity.</p>
<p>9. Consultation Forum Outcomes</p> <p>(e.g. the conclusions made on the change(s) whether there was unanimous approval, any dissenting views)</p>	<p>AEMO carried out preliminary consultation on changes to the Exchange Agreement in May 2018.</p> <p>No material issues were identified during the preliminary consultation. The Exchange Agreements have been updated based on the preliminary consultation and through the finalisation of the design of the capacity trading reforms as approved by the COAG Energy Council on 29 June 2018.</p>

RECOMMENDATION(S)	
10. Should the proposed changes be made, (with or without amendments)?	AEMO recommends that the amendments to the Exchange Agreement are implemented.

<p>11. If applicable, a proposed effective date for the proposed change(s) to take effect and justification for that timeline.</p>	<p>The changes will be effective following the enactment of the NGL and NGR amendments.</p> <p>Proposed implementation date is the 1 March 2019</p>
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ATTACHMENTS

- GSH Exchange Agreement Change Schedule
- GSH Settlement and Prudential Methodology
- Capacity Product List