

IMPACT IMPLEMENTATION REPORT (IIR)

Summary Section

For AEMO to complete and administer.

Issue Number	18		
Impacted Jurisdiction(s)	Queensland, New South Wales, South Australia, Victoria, Tasmania, Northern Territory, Australian Capital Territory		
Proponent	Mark Anderson	Company	AEMO
Affected Gas Market(s)	• Gas Supply Hub	Consultation process (Ordinary or Expedited)	Ordinary
Industry Consultative forum(s) used	GSH Reference Group		
Short Description of change(s)	Introduce a new Gas Supply Hub Participant type, Broker Participant, where an authorised broker would have the ability to submit OTC trades to AEMO for settlement.		
Procedure(s) or Documentation impacted	Gas Supply Hub Exchange Agreement		
Summary of the change(s)	<p>Amendments to the Gas Supply Hub Exchange Agreement:</p> <ul style="list-style-type: none"> • Clause 5.1, Participant Categories • New clause 6.5, Broker Participant • New clause 13.3, Broker Pre-matched Trades • Clause 19.1, Suspension Events • Clause 23.3, Representations by all Parties <p>A complete list of amendments to the EA resulting from the introduction of a Broker Participant are listed in Attachment A.</p>		



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Markets

Approved By

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**Date Consultation under
135EE or 135EF concludes**

5 July 2019

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IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

1. DESCRIPTION OF CHANGE(S) AND REASONS FOR CHANGE(S)

1.1. New Gas Supply Hub Participant Type: Broker Participant

AEMO has received proposals regarding the facilitation of anonymity and confidentiality in executing trades via the introduction of a new participant type, Broker Participant. The Broker Participant would be an authorised broker and would have the ability to give up OTC trades to the GSH for settlement.

Under this arrangement, the Broker Participant would enter two 'netted' trades (i.e. stand on each side of the transaction) to ensure they have a net zero position and no gas delivery obligations.

The trades would be submitted to AEMO using the pre-match trade functionality and as such would require the participants involved in the transaction to confirm the trade.

The two Trading Participant trades would be matched for delivery in AEMO's netting module as per the standard process (ie the non-broker parties involved in the trade may or may not be matched for delivery).

If a Broker pre-matched trade is submitted and confirmed that does not result in the net trading position of the Broker Participant being zero, the transaction will still be formed and the broker and counterparty will have obligations under the EA. The non-zero position will therefore have to be managed off-market.

2. REFERENCE DOCUMENTATION

The following documents provide a reference to the proposed amendments:

- GSH Exchange Agreement: <http://aemo.com.au/-/media/Files/Gas/Pipeline-Capacity/2018/GSH-Exchange-Agreement-v120.pdf>

GSH Exchange Agreement

5.1 Participant categories

(a) Each Member must be registered as a Trading Participant, a Viewing Participant, a Reallocation Participant or a Broker Participant.

(b) Subject to subclause (d) and (e), the same Member may be registered more than once in any or all participant categories.

(d) A Member may only be registered as a Trading Participant or a Broker Participant, not both.

(e) A Member that is registered as a Broker Participant may not be registered as a Trading Participant, a Viewing Participant or a Reallocation Participant.



6.5 Broker Participants (new clause)

- (a) Subject to this agreement, the Operator will give all Broker Participants access to the Trading System to the extent required to submit and confirm Broker Pre-matched Trades.

Note: Clause 13.3 limits the extent to which Broker Participants may submit and confirm Broker Pre-matched Trades.

- (b) A Broker Participant is not permitted to trade in Products or view information produced by the Operator about Product trading that is not made publicly available.
- (c) The Operator must register a Member as a Broker Participant if that Member has applied to become a Broker Participant and the Operator is satisfied that the Member:
 - (i) has met the requirements in clause 6.1(b);
 - (ii) has an active Austraclear account and has given its account information to the Operator;
 - (iii) is registered for GST purposes and has executed and delivered to the Operator a recipient created tax invoice agreement in the form specified by the Operator from time to time;
 - (iv) holds an Australian financial services licence (as defined in the Corporations Act) that permits dealing in a financial product by applying for, acquiring, varying or disposing of a financial products on behalf of another person in respect of products that would enable the Member to submit and confirm Broker Pre-matched Trades;
 - (v) is not an Agent Member or Appointing Member
 - (vi) is not registered as a Trading Participant, a Viewing Participant or a Reallocation Participant; and
 - (vii) is not registered in any capacity in any other markets, exchanges or auctions operated or conducted by AEMO.

9.2.1 Market Participant obligations

- (a) A Market Participant that is not a Broker Participant and is not eligible to be a Credit Support Provider must provide and at all times maintain Credit Support for the amount and forward period required to ensure that its Trading Margin does not fall below zero.

13.3 Broker Pre-matched Trades (new clause)

- (a) Subject to clause 13.3(b) and 13.3(c), if permitted in the Product Specification for a particular Product;



- (i) A Trading Participant may submit details of a Broker Pre-matched Trade and a Broker Participant may confirm those details in the Trading System; or
 - (ii) a Broker Participant may submit details of a Broker Pre-matched Trade and a Trading Participant may confirm those details in the Trading System,

if the Trading Participant and the Broker Participant have agreed between them the terms on which they will enter into a Transaction in respect of that Product and (if applicable) it is on or before the Last Trading Date for the Product.
- (b) Subject to clause 14.7.3, Delivery Netting will apply to all Broker Pre-matched Trades and the Trading Participant and the Broker Participant must not specify that Delivery Netting is not to apply to the Broker Pre-matched Trades.
- (c) A Broker Participant must only submit or confirm a Broker Pre-matched Trade with a Trading Participant if the Broker Participant also submits or confirms a matching Broker Pre-matched Trade with another Trading Participant in accordance with clause (a) for the same Product, Transaction Quantity, Price, Delivery Period and Delivery Point such that after Delivery Netting is applied to the first mentioned Broker Pre-matched Trade and the matching Pre-matched Trade the net aggregate trading position of the Broker Participant is zero.
- Note: notwithstanding clause 13.3(c), if a Broker Pre-matched Trade is submitted and confirmed that does not result in the net aggregate trading position of the Broker Participant being zero or Delivery Netting does not apply (see clause 14.7.3), the Broker Pre-matched Trade will still be formed and will give rise to the rights and obligations under, or as provided for in, this agreement.
- (d) Submissions and confirmations of Broker Pre-matched Trades must meet the requirements applicable to Orders for the relevant Product, except that:
- (i) details of a Broker Pre-matched Trade that are not confirmed by the Trading Participant or Broker Participant (as applicable) within one hour of submission will automatically expire; and
 - (ii) details of a Broker Pre-matched Trade will be rejected if not submitted before 6:00pm on any day.
- (e) Clauses 12.4 and 12.5 apply to the submission and confirmation of Broker Pre-matched Trades, except that the Operator is not required to reject a Broker Pre-matched Trade submission or confirmation under clause 12.5 by reference to the Trading Margin of, or any limit set by, either of the Seller or the Buyer.
- (f) A Broker Pre-matched Trade is formed between the Trading Participant and Broker Participant under that trade when:
- (i) the Trading Participant or Broker Participant (as applicable) confirms the details of the trade in the Trading System; and
 - (ii) the matching Pre-matched Trade is also formed between the Broker Participant and the other Trading Participant in accordance with clause 13.3(f)(i).



19.1 Suspension Events

(f) in respect of a Broker Participant, the Broker Participant has submitted or confirmed a Broker Pre-matched Trade with a Trading Participant and has not submitted or confirmed a matching Broker Pre-matched Trade with another Trading Participant in accordance with clause 13.3.

23.3 Representations by all parties

(m) the Operator has not given to it any advice, representation, assurance or guarantee as to any Broker Participant, any information provided by or in relation to any Broker Participant or otherwise in relation to or in connection with any Transaction or Broker Pre-matched Trade with a Broker Participant.

Please see Appendix A for a complete list of amendments to the Exchange Agreement

3. THE HIGH LEVEL DETAILS OF THE CHANGE(S) TO THE EXISTING PROCEDURES

3.1. Broker Participant

Current Operation

A Broker Participant does not currently exist under the Exchange Agreement

Proposed Operation

Under the proposed amendments to the GSH EA, Broker Participants will be able to execute and enter netted trades via the Gas Supply Hub.

4. EXPLANATION REGARDING THE ORDER OF MAGNITUDE OF THE CHANGE

While the proposed amendment will be significant for gas trading in Eastern Australia, the implementation of a Broker Participant is a non-material change to current market operations with no impact on existing products.



ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

5. OVERALL INDUSTRY COST / BENEFIT (TANGIBLE / INTANGIBLE / RISK) ANALYSIS AND/OR COST ESTIMATES

Costs:

- AEMO anticipate no additional costs to gas trading exchange members implementing this proposal.

Benefits:

- Experience in other markets suggests that transaction anonymity improves trading participation and liquidity.
- Mitigate concerns regarding counterparty identity to help promote price stability.

6. THE LIKELY IMPLEMENTATION EFFECT OF THE CHANGE(S) ON STAKEHOLDERS

Incorporated in section 5 above.

The proposed amendment will have no impact on existing products and operations, with no anticipated functional changes to existing participant system interfaces and reports.

7. TESTING REQUIREMENTS

No testing will be required from industry.

8. AEMO'S PRELIMINARY ASSESSMENT OF THE PROPOSAL'S COMPLIANCE WITH SECTION 135EB:

Consistency with NGL and NGR

The NGR specifically provides that the Exchange Agreement may provide for different categories of membership. The Exchange Agreement must set out the criteria that a person must satisfy to become a gas trading exchange member, either generally or in any particular category of membership, which must include a requirement to enter into a membership agreement with AEMO.

National Gas Objective

The national gas objective 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.



Potential compliance costs

AEMO believes the costs to gas trading exchange members in implementing this proposal are minimal. AEMO does not believe there will be any ongoing costs to gas trading exchange members to comply with this proposal.

9. CONSULTATION FORUM OUTCOMES

AEMO presented a Discussion Paper to the GSHRG on the 25th July 2018 and requested any concerns with the change progressing to be raised by 8th August 2018.

Feedback was generally supportive with some participants questioning whether the introduction of a Broker Participant would increase liquidity.

RECOMMENDATION(S)

10. SHOULD THE PROPOSED PROCEDURES BE MADE, (WITH OR WITHOUT AMENDMENTS)?

AEMO recommends that the proposed amendments be made to the Gas Supply Hub Exchange Agreement.

11. IF APPLICABLE, A PROPOSED EFFECTIVE DATE FOR THE PROPOSED CHANGE(S) TO TAKE EFFECT AND JUSTIFICATION FOR THAT TIMELINE.

The proposed effective date for changes to the GSH Exchange Agreement is 1 August 2019.

AEMO will provide market participants with 15 business days notice prior to commencement.

ATTACHMENT A – DOCUMENTATION CHANGES (SEE SECTION 3)

Complete list of changes to the Exchange Agreement

Clause/Definition	Description
Broker Participant	definition
Broker pre-matched trade	definition
Gas Transporter	definition
Market Participant	definition
Broker Participants	clause 2.11
Participant categories	Clause 5.1
Member Representatives	clause 5.3.1
Access to Trading system	clause 6.1
Broker Participants	clause 6.5
Credit Support- Market Participants	Clause 9.2.1
Trading Margin Requirements	clause 9.4.2
Information available to Trading and Viewing Participants	clause 10.1
Suspension of the Trading System	clause 11.2
Delivery Point	definition
Pre-matched Trades	clause 13.2



Broker Pre-matched trades	clause 13.3
Delivery pressure	clause 14.5.1
Gas specification	clause 14.5.3
Suspension Events	Clause 19.1
Effect of Trading Halt	clause 19.3
Consequences of failure to comply with Default Notice	clause 20.4 (b)
General provisions for application of close out and offset	clause 20.5.1
Representations by all Parties	clause 23.3 (m)
Schedules 4 - 34	pg 125 - 200