

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

Issue Number	GSH IIR 005		
Impacted Jurisdiction (s)	South Australia, Queensland All Gas Supply Hub Trading Locations		
Proponent	Trent Morrow	Company	Australian Energy Market Operator
Affected Gas Markets(s)	Gas Supply Hub	Consultation process (Ordinary or Expedited)	Ordinary
Industry Consultative forum(s) used	GSH Reference Group	Date Industry Consultative forum(s)consultation concluded	19 th November 2015
Short Description of change(s)	Amendments to the Gas Supply Hub Exchange Agreement to allow pre-matched (off-market) transactions in Wallumbilla products to be excluded from the delivery netting process.		
Procedure(s) or Documentation impacted	GSH Exchange Agreement		
Summary of the change(s)	Amendment of the Exchange Agreement: <ul style="list-style-type: none"> • s13.2 amended to allow trading participants to specify that delivery netting will not apply to a pre-matched transaction. • Update schedules to the Exchange Agreement to designate that for Wallumbilla products participant will have the ability to exclude a pre-matched transaction from the delivery netting process. 		
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Date I&IR published	15 March 2016	Scheduled date for end of consultation under EA 3.3, 3.4 or 3.6	18 April 2016
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IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL	
<p>1. Description of change(s) and reasons for change(s)</p>	<p><u>Non-Netted pre-matched transactions</u></p> <p>AEMO proposes to allow trading participants to exclude an off-market transaction from the delivery netting process when registering the transaction on the exchange. It is proposed that the exclusion of a pre-matched transaction from the delivery netting process will be permitted for Wallumbilla trading locations (South West Queensland Pipeline (SWQP), Roma Brisbane Pipeline (RBP), and Queensland Gas Pipeline (QGP)).</p> <p>Under the current market arrangements, a pre-matched trade in a netted product is included in the delivery netting process. The delivery netting process could result in the buyer being paired with a different seller at a different delivery point to that associated with their pre-matched transaction. Trading participants may prefer to maintain the gas delivery details agreed with their bilateral counterpart and as such the current arrangements may deter the use of the pre-match trade facility.</p> <p>The ability to exclude a pre-matched transaction from the delivery netting process would allow trading participants to designate the delivery point for their transaction when the deal is registered with the market. This ability to lock-in the delivery point at the time of the transaction may benefit trading participants as the deal may have been executed to suit the specific requirements of their gas portfolio or may be paired with a specific transportation deal.</p> <p>In addition, AEMO proposes to allow trading participants to register a pre-matched trade with a delivery point that is not currently specified in a product specification (an alternate delivery point).</p>
<p>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Exchange Agreement ▪ Other 	<p><u>Exchange Agreement</u></p> <p>(see attachment A for a marked up version of the changes)</p> <p>Proposal:</p> <p>Amendment to the definition of “Delivery Point” in s.12.1 to allow trading participants to register a pre-matched trade with a delivery point that is not currently specified in a product specification (an alternate delivery point).</p> <p>As a result of the proposed amendment to the definition of “Delivery Point”, consequential changes are required to the definition of “Gas Transporter” and s.14.5.1 and s.14.5.3(a) to allow for gas transporters, pressure ranges and additional quality specifications for an alternate delivery point that is not defined in the EA.</p> <p>Amendment to s13.2 (and a related amendment to s.14.7.1(b)) to allow trading participants to specify that delivery netting will not</p>

	<p>apply to a pre-matched transaction and to specify a delivery point agreed between the Trading Participants that is not specified in a Product Specification (alternate delivery point).</p> <p>Update to schedule 4, 5, 6, 7 and 8 to designate the products that will allow participants to exclude a pre-matched transaction from the delivery netting process and specify an alternate delivery point.</p>
<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><u>Current Operation</u></p> <p>Under the current market framework, the application of netting to a transaction depends on the tenor (or delivery period) of the product. Netting is applicable to all gas delivery obligations associated with Daily, Weekly and Monthly products. Pre-matched transactions in these products are included in the delivery netting process. Under the existing market arrangements, netting is not applicable to trades in Day-Ahead or Balance-of-Day products.</p> <p><u>Proposed Operation</u></p> <p>Under the proposed amendment, trading participants will be permitted to exclude a pre-matched trade from the gas delivery netting and matching process. Under the proposal, delivery obligations (including delivery counterparts and delivery points) for a pre-matched trade excluded from the delivery netting process will be as per the details registered with the exchange by the trading participants. If an alternate delivery point is registered, it would be the responsibility of the Trading Participants, not AEMO as Operator, to agree and document the details of alternate delivery point for the Pre-matched Trade, including the gas transporter, pressure ranges and additional quality specifications for the alternate delivery point.</p>
<p>4. Assessment of significant of change</p> <p>(eg: material, non-material or non-substantial)</p>	<p>The proposed amendment is a non-material change to current market operations with no impact on existing products.</p>

ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

<p>5. Overall Industry Cost / benefit (tangible / intangible / risk) analysis and/or cost estimates</p>	<p>AEMO anticipates there will be no costs for gas trading exchange members with the implementation of the new non-netted products.</p> <p>Benefits of the proposal are as follows:</p> <ul style="list-style-type: none"> • A non-netted product would allow trading participants to designate the delivery point for their off-market transactions and exclude their transaction from the gas delivery netting and matching process.
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	<ul style="list-style-type: none"> • The ability to lock in the delivery point at the time of the transaction may benefit trading participants in the event they have executed a transaction to suit the specific requirements of their gas portfolio or where the transaction is paired with a specific transportation deal. • It can be used in conjunction with an alternate delivery point addendum to specify a delivery point at or around Wallumbilla that is not currently defined in the Exchange Agreement. It would be the responsibility of the Trading Participants to agree and document the details of the alternate delivery point for the Pre-matched Trade.
<p>6. The likely implementation effect of the change(s) on stakeholders</p> <p>(e.g. Industry or end-users)</p>	<p>The exclusion of a pre-matched transaction from the delivery netting process will be communicated to the parties of the transaction through the existing Trade Confirmation report.</p>
7. Testing requirements	Incorporated in section 6 above
<p>8. AEMO's preliminary assessment of the proposal's compliance with rule 540(1) NGR:</p> <p>- consistency with NGL and NGR,</p> <p>- appropriate with regard to national gas objective</p> <p>- appropriate with regard to likely compliance costs for Operator or Members</p>	<p><u>Consistency with NGL and NGR</u></p> <p>The NGR provisions relating to the gas trading exchange requires the Exchange Agreement to set out, amongst other things, a description of the products offered on the exchange and the process for amending the Exchange Agreement.</p> <p><u>National Gas Objective</u></p> <p>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.</p> <p>The ability to exclude a pre-matched transaction from the delivery netting process provides additional flexibility for trading participants to manage physical gas portfolio requirements, in response to short term supply, production or customer demand variations. This flexibility could be used by trading participants to optimise production and transportation facilities and reduce costs associated with the delivery of transactions.</p> <p><u>Potential compliance costs</u></p> <p>AEMO does not anticipate any compliance costs to gas trading exchange members associated with this proposal as the registration of pre-matched transactions is voluntary.</p>
<p>9. Consultation Forum Outcomes</p> <p>(e.g. the conclusions made on the change(s) whether there was</p>	<p>The proposal has been discussed at the Gas Supply Reference Group on 19 November 2015.</p> <p>The proposal to allow a pre-matched transaction to be excluded from the delivery netting process was broadly supported by Gas</p>

<p>unanimous approval, any dissenting views)</p>	<p>Supply Hub Reference Group members.</p> <p>During the consultation some members queried whether there would be a potential impact on the liquidity of the exchange traded products due to the proposal.</p> <p>AEMO does not believe there is a material concern associated with the proposal and potential impact on liquidity because:</p> <ul style="list-style-type: none"> • The proposal provides the option to register a broader range of bilateral off-market transactions with the exchange. As such it expected that the proposal will result in a greater proportion of bilateral transactions registered for settlement with the market – rather than the switching of liquidity from the exchange market to the bilateral market. • The proposal is likely to be of benefit to trading participants that have more bespoke requirements that cannot be meet by the exchange traded product. As such, if the proposal is not implemented then it is more likely that these transactions would occur in the bilateral market rather than through the exchange traded products. • Registration of pre-matched transactions with the exchange provides greater transparency of transaction price and quantities. Enhanced transparency is likely to benefit both the exchange traded and bilateral markets.
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RECOMMENDATION(S)	
<p>10. Should the proposed changes be made, (with or without amendments)?</p>	<p>AEMO recommends that the proposal should be implemented.</p>
<p>11. If applicable, a proposed effective date for the proposed change(s) to take effect and justification for that timeline.</p>	<p>Proposed implementation date is the beginning of June 2016.</p> <p>The proposed implementation date coincides with the proposed implementation date for the Moomba and Spread trading products.</p>

ATTACHMENT A

Documentation Changes

See draft Exchange Agreement with amendments as specified above (section 2)

Blue represents additions. Red and strikeout represents deletions – Marked up changes.

2 DEFINITIONS AND INTERPRETATION

2.1 Definitions

Gas Transporter means each of the entities identified in schedule 2 as a service provider for a gas transportation pipeline identified in schedule 2, and their respective successors in that capacity or, in relation to a Pre-matched Trade, the service provider for the gas transportation pipeline agreed between the Trading Participants to the Pre-matched Trade.

12 Trading

12.1 Definitions

Term	Definition
Delivery Point	The point at which delivery of the Commodity is to take place, as specified in the Product Specification, or, where provided for in the Product Specification, in each Order or, in relation to a Pre-matched Trade, as agreed between the Trading Participants to the Pre-matched Trade.

13.2 Pre-matched Trades

- (a) If permitted in the Product Specification for a particular Product:
 - (i) a Trading Participant may submit details of a **Pre-matched Trade** and a second Trading Participant may confirm those details in the Trading System, if the Trading Participants have agreed between them the terms on which they will enter into a Transaction in respect of that Product; and
 - (ii) at the time of submitting and confirming the details of the Pre-matched Trade, the Trading Participants may specify that Delivery

Netting is not to apply to the Pre-matched Trade and, if the Trading Participants have specified that Delivery Netting is not to apply to the Pre-matched Trade, the Trading Participants may also specify that the delivery point for the Pre-matched Trade is a delivery point agreed between the Trading Participants that is not specified in a Product Specification (alternate delivery point).

- (a2) Delivery Netting will not apply to a Pre-matched Trade if the Trading Participants specify that Delivery Netting is not to apply to the pre-matched Trade in accordance with clause 13.2(a)(ii).

14.5.1 Delivery pressure

The Delivering Participant must ensure that the gas delivered to the Delivery Point is delivered within the pressure range specified for the Delivery Point in the Product Specification or, in relation to a Pre-matched Trade, the pressure range specified by the Gas Transporter for the Delivery Point for the Pre-matched Trade. The Receiving Participant has no obligation to accept delivery of gas at a pressure outside the pressure range specified for the Delivery Point.

14.5.3 Gas specification

- (a) The Delivering Participant must ensure that all gas delivered to the Receiving Participant at the Delivery Point meets the gas quality specification contained in Australian Standard AS4564-2005, Specification for General Purpose Natural Gas (as amended or replaced from time to time), and any additional gas quality specifications specified for that Delivery Point in schedule 2 or, in relation to a Pre-matched Trade, any additional gas quality specified by the Gas Transporter for the Delivery Point for the Pre-matched Trade.

14.7.1 Application

- (b) In respect of any Gas Day that commences on or after the date in paragraph (a) and a particular Trading Location, subject to clause 14.7.3 and clause 13.2(a2), Delivery Netting applies to Transactions:
 - (i) in respect of Products to which Delivery Netting is specified to apply in the Product Specification;
 - (ii) for delivery at that Delivery Point and for which the Delivery Period includes, or comprises, that Gas Day.

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The Product Specifications in the schedules listed below will be amended:

- Schedule 4: Product Specifications for Daily Gas (Wallumbilla)
- Schedule 5: Product Specifications for Day Ahead Gas (Wallumbilla)
- Schedule 6: Product Specifications for Balance-of-Day Gas (Wallumbilla)
- Schedule 7: Product Specifications for Weekly Gas (Wallumbilla)
- Schedule 8: Product Specifications for Monthly Gas (Wallumbilla)

Each Product Specification will be amended as shown below:

Pre-matched Trades	<p>Permitted.</p> <p>Trading Participants may specify that Delivery Netting is not to apply to a Pre-matched Trade (see clause 13.2(a2) of this agreement).</p> <p>If the Trading Participants have specified that Delivery Netting is not to apply to the Pre-matched Trade, the Trading Participants may also specify that the delivery point for the Pre-matched Trade is a delivery point agreed between the Trading Participants that is not specified in a Product Specification (alternate delivery point).</p>
Special conditions	<p>Each Trading Participant who submits an Order in relation to this Product represents and warrants for the purposes of this agreement that the Trading Participant has all necessary rights under agreements with the Gas Transporter at the Delivery Point (as identified in schedule 2 or as specified in a Pre-matched Trade) to deliver (in the case of the Seller) or accept (in the case of the Buyer) the Transaction Quantity.</p>