

**CAPACITY TRANSFER AND AUCTION PROCEDURES
IMPACT & IMPLEMENTATION REPORT – SUMMARY SECTION**

Issue Number	CTA IIR 01		
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 	GSH Capacity Auction STTM DWGM	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)	The Capacity Trading and Auction Procedures will be made by AEMO under the NGL as part of the implementation of the Council of Australian Governments (COAG) Energy Council’s pipeline capacity trading reform package.		
Procedure(s) or Documentation impacted	Capacity Trading and Auction Procedures The Auction Agreement is an appendix to the Capacity Trading and Auction Procedures.		
Summary of the change(s)	The Capacity Trading and Auction Procedures regulate the operation of the Capacity Auction and transaction support arrangements for the Capacity Trading Platform. The Auction Agreement is an appendix to the Capacity Trading and Auction Procedures. This agreement between AEMO and auction participants outlines the terms for participation in the Capacity Auction.		
I&IR Prepared By	Trent Morrow	Approved By	Peter Geers
Date I&IR published	20 August 2018	Scheduled date for end of consultation	28 September 2018
Email address for responses	pct@aemo.com.au		
AEMO contact for enquiries	Trent Morrow - 07 3347 3072		

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.

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>	<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 August¹ (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 reforms² (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 costs³ (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> <p>Amendments to the GSH Exchange Agreement are also required for the implementation of the capacity trading reform package. A separate Impact and Implementation Report has been prepared and published on the AEMO website for the consultation on the GSH Exchange Agreement.</p>
<p>3. The high-level details of the change(s) 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>The Capacity Transfer and Auction Procedures will be made by AEMO following the enactment of amendments to the NGL and NGR by the SA parliament.</p> <p>The Capacity Transfer and Auction Procedures consists of:</p> <ul style="list-style-type: none"> • General arrangements that are common to the Capacity Trading Platform and Capacity Auction including registration and transportation service point register; • Capacity transfer / trading arrangements; • Capacity Auction arrangements • Compression facility information and other transitional arrangements. <p>The Auction Agreement is an appendix to the Capacity Trading and Auction Procedures.</p>

¹[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)

² <http://gmr.coenergyCouncil.gov.au/publications/capacity-trading-reform-package-legal-and-regulatory-framework-information-paper>

³ <http://gmr.coenergyCouncil.gov.au/publications/guidance-note-aer-aemo-roles-under-capacity-trading-reform-package>

<p>4. Assessment of significant of change</p> <p>(eg: material, non-material or non-substantial)</p>	<p>Implementation of COAG Energy Council's pipeline capacity trading reforms is a material change for industry.</p>
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ASSESSMENT OF LIKELY EFFECT OF PROPOSAL

<p>5. Overall Industry Cost / benefit (tangible / intangible / risk) analysis and/or cost estimates</p>	<p>The Capacity Auction aims 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.</p> <p>Implementation of the capacity trading reform package will require expenditure by AEMO on market systems, legal artefacts as well as on market and operational readiness activities.</p> <p>Facility operators and participants are also likely to incur costs associated with systems, commercial arrangements and operational readiness.</p>
<p>6. The likely implementation effect of the change(s) on stakeholders</p> <p>(e.g. Industry or end-users)</p>	<p>Trading of capacity products through the Capacity Trading Platform and Capacity Auction will be voluntary for participants. Capacity products will be listed on the Gas Trading Exchange for trading by exchange members. 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. The Capacity Trading Platform will utilise existing GSH trading, reporting, settlement and prudential arrangements.</p> <p>Auction participants will be able to submit auction bids using a web interface accessed through the markets portal. The auction will utilise existing GSH arrangements for settlement, prudential and reporting.</p> <p>Facility operators will be required to process the transfer of capacity between shippers resulting from the trading of capacity products. Facility operators will be informed of trades and capacity won in the auction directly by AEMO. This integration facilitates anonymous trading of capacity between shippers, and automates shippers' access to secondary capacity either traded or won in the auction without the need for further confirmation.</p>
<p>7. Testing requirements</p>	<p>Facility operators will have the opportunity to test the Capacity Transfer Interface and reporting systems in November 2018.</p> <p>Facility operators and auction participants will be given the opportunity to test the trading, reporting, settlement and delivery</p>

	arrangements for the new capacity products during a market trial scheduled for January and February 2019.
<p>8. AEMO's preliminary assessment of the proposal:</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.</p> <p>Trading of capacity products through the Gas Trading Exchange and the purchase of auction products through the Capacity Auction will be voluntary. However, facility operators will need to comply with the obligations outlined in the Capacity Transfer and Auction Procedures for the transfer of capacity as well as the provision of auction quantities.</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 the Capacity Transfer and Auction Procedures in May 2018.</p> <p>No material issues were identified during the preliminary consultation. The procedures 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 Capacity Transfer and Auction Procedures are established.
11. If applicable, a proposed effective date for the proposed change(s) to take effect and justification for that timeline.	<p>The changes will be effective following the enactment of the NGL and NGR amendments.</p> <p>The commencement date for the Capacity Trading Platform and Capacity Auction is 1 March 2019</p>

Attachments

- Capacity Transfer and Auction Procedures