

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

Issue Number	GSH IIR 007		
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	22 nd March 2016
Short Description of change(s)	Amendments to the Gas Supply Hub Exchange Agreement to remove the In-Pipe Trade (IPT) delivery point from the South West Queensland Pipeline (SWQP) trading location.		
Procedure(s) or Documentation impacted	GSH Exchange Agreement		
Summary of the change(s)	Amendment of the Exchange Agreement, <ul style="list-style-type: none"> • remove the In Pipe Trade Point from the South West Queensland Pipeline (SWQP) trading location in schedule 2, and • remove the In Pipe Trade Point from the list of delivery points in the Product Specifications in schedule 3, 4, 5, 6 and 7. 		
I&IR Prepared By	Trent Morrow	Approved By	Violette Mouchaileh
Date I&IR published	7 April 2016	Scheduled date for end of consultation under EA 3.3, 3.4 or 3.6	5 May 2016
Email address for responses	Hub_Reference@aemo.com.au		
AEMO contact for enquiries	Trent Morrow – 07 3347 3072		

IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

<p>1. Description of change(s) and reasons for change(s)</p>	<p><u>Remove In Pipe Trade Point from SWQP trading location</u></p> <p>The SWQP Trading Location currently includes the Wallumbilla Notional Point, Fairview (Wallumbilla) and the In Pipe Trade Point (on pipeline) delivery points. AEMO proposes to remove the In Pipe Trade Point from the SWQP trading location definition because, for trading participants operating at Wallumbilla, there are additional transportation costs associated with the receipt of gas at this location.</p> <p>Under the GSH framework, a seller specifies the delivery point for the transaction when submitting their order to the trading exchange. The buyer is informed of the delivery point (and their counterpart) at the time of the transactions (or following the delivery netting process for netted products).</p> <p>Following the commencement of bi-directional flow on the SWQP, a Buyer that receipts gas at the In Pipe Trade Point may be charged for eastern haulage on the SWQP to transport that gas to Wallumbilla. In comparison, the additional SWQP haulage charge would not be applicable to the buyer if they receipt gas at the Wallumbilla Notional Point or the Fairview delivery points.</p> <p>The difference in delivery costs makes it difficult for a buyer to price their orders and in turn is likely to impact on their participation in the market. In response to the uncertainty in delivery costs, a buyer located at Wallumbilla is likely to discount their bid price by the additional SWQP haulage cost which makes it more difficult to match transactions and reduces the revenue available to sellers.</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> <ul style="list-style-type: none"> • <i>Schedule 2: SWQP trading location definition.</i> • <i>Schedule 3, 4, 5, 6, & 7: Product Specifications for the SWQP trading location.</i>
<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 	<p><u>Current Operation</u></p> <p>Trading participants specify a delivery when submitting a sell order to the trading exchange. For SWQP products, participants are permitted to select from the Wallumbilla Notional Point, Fairview and the In Pipe Trade Point delivery points.</p> <p><u>Proposed Operation</u></p> <p>Under the proposed amendment, trading participants will be</p>

<p>operation</p> <ul style="list-style-type: none"> ▪ A marked up version as amended (see section 1) 	<p>permitted to select the Wallumbilla Notional Point or the Fairview delivery point when submitting a sell order to the trading exchange.</p> <p>Under the proposed change, the In Pipe Trade Point would not be available to trading participants when submitting an order from the effective date. For a period of time (up to 4 months if transactions in the Monthly product occur just prior to the effective date) after the change is made effective, a buyer may be paired with a seller at the In Pipe Trade Point where the seller entered into the relevant transaction prior to the effective date of the change.</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.</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 associated with the implementation of the proposed change.</p> <p>AEMO understands that when selling gas at the In Pipe Trade Point, physical gas can be sourced from Wallumbilla or Moomba to meet the gas delivery obligations of the transaction. Under the proposed change, a seller would need to deliver gas to Wallumbilla to meet their gas delivery obligation. AEMO considers that the reduced flexibility resulting from the proposed change will be offset (from 1 June 2016) by the ability sell physical Moomba gas supplies by transacting a product with a Moomba trading location.</p> <p>The benefit of the proposal is that it will provide potential buyers with certainty that gas delivery will occur at Wallumbilla. This certainty means potential buyers would not need to discount their bid price for potential transportation costs that are associated with the In Pipe Trade Point. The likely change in participation and pricing behaviour by buyers is expected to make it more likely to be able to match transactions in SWQP products.</p>
<p>6. The likely implementation effect of the change(s) on stakeholders</p> <p>(e.g. Industry or end-users)</p>	<p>There are no changes to participant interfaces associated with the proposed change.</p> <p>Trading participants that were using the In Pipe Trade Point to sell physical Moomba gas supplies will need to make alternative arrangements for the sale of that gas. Alternatives include:</p>

	<ul style="list-style-type: none"> • sell products with a Moomba trading location, or • transfer physical gas to Wallumbilla and continue to transact a product with a SWQP trading location.
7. Testing requirements	There are no testing requirements associated with the change.
8. AEMO's preliminary assessment of the proposal's compliance with rule 540(1) NGR: - consistency with NGL and NGR, - appropriate with regard to national gas objective - appropriate with regard to likely compliance costs for Operator or Members	<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 proposed change will remove current uncertainty of delivery costs for buyers of the SWQP products. The greater cost certainty will aid participation and pricing of transactions by buyers contributing to the efficient allocation of natural gas.</p> <p><u>Potential compliance costs</u></p> <p>AEMO does not anticipate any additional compliance costs to gas trading exchange members associated with this proposal.</p>
9. Consultation Forum Outcomes (e.g. the conclusions made on the change(s) whether there was unanimous approval, any dissenting views)	<p>The proposal was discussed at the Gas Supply Reference Group on 18 February 2016 and 22 March 2016.</p> <p>The proposal to remove was broadly supported by Gas Supply Hub Reference Group members.</p> <p>During the consultation some members raised a number of concerns.</p> <ul style="list-style-type: none"> • Removal of the In Pipe Trade Point will reduce flexibility for sellers: The implementation of Moomba products on 1 June 2016 will provide sellers with an additional option for the sale of gas produced at Moomba. AEMO proposes that participants will be able to utilise the SWQP In Pipe Trade Point when registering a bilateral off-market deal. • Wallumbilla Notional Point is not as firm as the In Pipe Trade Point: AEMO understands that both delivery points are title transfer services offered to shippers by the APA Group. AEMO is not aware of any issues affecting the firmness of the Wallumbilla Notional Point title transfer service. • More title transfer (delivery) errors are likely to occur at

	<p>the Wallumbilla Notional Point: AEMO understands that the same nomination system is used by shippers to transfer title at the In Pipe Trade Point and the Wallumbilla Notional Point.</p>
--	--

<p style="text-align: center;">RECOMMENDATION(S)</p>	
<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 strikethrough represents deletions – Marked up changes.

Schedule 2: Trading Locations and Delivery Points

2 Trading Locations and Delivery Points

Trading Location	Delivery Point	Delivery Point Definition
SWQP Trading Location	Fairview	Interconnection of the SWQP and the Fairview Pipeline.
	Wallumbilla Notional Point	A notional point within the SWQP Wallumbilla Compound, nominated by the Gas Transporter, from which gas may be directed to or from the SWQP.
	SWQP In Pipe Trade Point	Any virtual point within the SWQP nominated by the Gas Transporter at which transfers of title in gas can be effected.

.....

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

- Schedule 3: Product Specifications for Daily Gas (Wallumbilla)
- Schedule 4: Product Specifications for Day Ahead Gas (Wallumbilla)
- Schedule 5: Product Specifications for Balance-of-Day Gas (Wallumbilla)
- Schedule 6: Product Specifications for Weekly Gas (Wallumbilla)
- Schedule 7: Product Specifications for Monthly Gas (Wallumbilla)

Each Product Specification for SWQP Trading Locations will be amended as shown below:

Delivery Point	The SWQP Trading Location, at the Delivery Point specified in the Order, being one of the following: <ul style="list-style-type: none">- Fairview- Wallumbilla Notional Point- SWQP In Pipe Trade Point as defined in schedule 2 for the SWQP Trading Location.
----------------	--