

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

Issue Number	GSH IIR 013		
Impacted Jurisdiction (s)	Queensland All GSH Trading Locations		
Proponent	Roy Kaplan	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	GSH Reference Group	Date Industry Consultative forum(s)consultation concluded	27 March 2018
Short Description of change(s)	Amendments to the Gas Supply Hub Exchange Agreement to remove the Security Deposit Limit		
Procedure(s) or Documentation impacted	GSH Exchange Agreement – amendments to Clause 9, Prudential Requirements		
Summary of the change(s)	Amendments to Clause 9, Prudential Requirements by deleting clause 9.3(c) in its entirety.		
I&IR Prepared By	Nicole Dodd	Approved By	Violette Mouchaileh
Date I&IR published	12 June 2018	Scheduled date for end of consultation under EA 3.3, 3.4 or 3.6	10 July 2018
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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>Currently, there is a limit on security deposits of \$100,000 or up to the value of any bank guarantees that have been lodged, whichever is the greater. A number of GSH participants have provided feedback that the limit should be increased or removed on the use of security deposits (i.e. cash) as collateral in the GSH.</p> <p>The security deposit limit was included in the Exchange Agreement (EA) in the initial development of the GSH to manage the risk of clawback for the market in the event a participant defaulted and went into external administration. However, in 2014, the Commonwealth passed regulations to declare the EA as a Market Netting Contract under the Payment Systems and Netting Act (Section 3A Payment Systems and Netting Regulations 2001). Declaration as a Market Netting Contract means that any security lodged may be treated in accordance with the terms of the contract, and is not subject to clawback if a party goes into external administration. As such, AEMO expects that removal of the limit in the EA would not change the clawback risk profile for the market.</p> <p>AEMO has assessed that removing the security deposit limit can be implemented with a relatively minor system change.</p>
<p>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Exchange Agreement ▪ Other 	<p><u>GSH Exchange Agreement</u></p> <p>Proposal: Amendments to the Exchange Agreement by deleting clause 9.3(c) in its entirety</p> <p>(e) The credit balance for a Market Participant in the security deposit fund must not exceed the greater of:</p> <p>(i) \$100,000; and</p> <p>(ii) an amount equal to that participant's Trading Limit</p> <p><u>Supporting Guides and Material</u></p> <p>Consequential updates will be made to the following material:</p> <ul style="list-style-type: none"> • Guide to Gas Supply Hub Prudential Dashboard • GSH Security Deposit Arrangements
<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><u>Current Security Deposit Limit</u></p> <p>Currently, provision of security deposit as collateral is limited to \$100,000 or up to the value of any bank guarantees, whichever is the greater.</p> <p><u>Proposed Security Deposit Limit</u></p> <p>Unlimited.</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>
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ASSESSMENT OF LIKELY EFFECT OF PROPOSAL	
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<p>5. Overall Industry Cost / benefit (tangible / intangible / risk) analysis and/or cost estimates</p>	<p>Costs:</p> <ul style="list-style-type: none"> AEMO anticipates no implementation costs to gas trading exchange members with this proposal, costs for implementation will be absorbed as part of operating costs of the GSH. <p>Benefits:</p> <ul style="list-style-type: none"> Participants can lodge cash as collateral to an unlimited amount, providing an additional option for meeting prudential requirements of participating in the market. Participants can lodge cash security at short notice providing additional flexibility to meet prudential requirements. <p>Risks:</p> <ul style="list-style-type: none"> As outlined in section 1 above, clawback risk is mitigated through declaration of the Exchange Agreement as a Market Netting Contract.
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<p>6. The likely implementation effect of the change(s) on stakeholders</p> <p>(e.g. Industry or end-users)</p>	<p>Incorporated in section 5 above.</p> <p>The proposed amendment will have no impact on existing products and operations, other than the ability to lodge additional cash as collateral.</p>
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<p>7. Testing requirements</p>	<p>AEMO will carry out testing of of prudential dashboard alarms.</p> <p>No testing will be required from industry.</p>
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<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><u>Consistency with NGL and NGR</u></p> <p>The NGL and NGR provide for the EA to set the prudential requirements.</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>
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	<p>AEMO believes this change promotes the NGO as it provides flexibility in the management of prudential requirements to trading exchange members that will reduce overall transaction costs.</p> <p><u>Potential compliance costs</u></p> <p>AEMO believes the costs associated with 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 and may reduce costs for some exchange members to participate in the market.</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>In 2017, AEMO held a market forum and issued a survey to understand potential improvements that could be made to the Gas Supply Hub. A common suggestion was the removal of the limit on security deposits.</p> <p>AEMO distributed a Discussion Paper to the Gas Supply Hub Reference Group (GSHRG) on 23 March 2018, which described the change to remove the limit as a priority. The GSHRG discussed the change on 27 March 2018, and was asked to raise any concerns with the change progressing by 12 April 2018.</p> <p>Feedback received was supportive of the proposed changes, viewing the proposal as a positive in providing additional flexibility for participants.</p>

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 8 August 2018.</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.

9.3 Security deposit amounts

~~(e) The credit balance for a Market Participant in the security deposit fund must not exceed the greater of:~~

~~(i) \$100,000; and~~

~~(ii) an amount equal to that participant's Trading Limit~~