

GSH EXCHANGE AGREEMENT – NOTICE OF PROPOSED AMENDMENT UNDER EXPEDITED PROCESS

PREPARED BY: AEMO

DOCUMENT REF: GSH EXCHANGE AGREEMENT NOTICE OF PROPOSED AMENDMENT

VERSION: 1.0

DATE: 3 March 2014

FINAL

1. NOTICE OF PROPOSED AMENDMENT

This document gives notice to all Members of the Gas Supply Hub, persons that have registered or applied to be registered as Members, and other interested persons, that AEMO is consulting on proposed amendments to the Gas Supply Hub Exchange Agreement (EA) under the expedited process in clause 3.4 of the EA. This document contains the matters required to be published in relation to the proposed amendments under clause 3.2(b) of the EA.

Terms defined in the EA have the same meaning when used in this document unless otherwise specified.

AEMO has proposed amendments to the EA, as set out in section 3 of this document. The impact and implementation of each proposed amendment is discussed in the proposal, and accordingly AEMO's impact and implementation report is taken to be incorporated within this document.

AEMO proposes an effective date for these amendments of **20 March 2014**.

Any person may submit written comments on the proposed amendments by 5pm (Eastern Daylight Savings time) on **Tuesday 18 March 2014**.

Under clause 3.2(b)(iii) of the EA, AEMO will prepare:

an impact and implementation report prepared by the Operator containing:

- (A) a critical examination of the proposed amendment and its likely effect (including its costs and benefits); and
- (B) the Operator's preliminary view on whether the proposed amendment or an alternative amendment should be made.

2. BACKGROUND

A number of amendments to the EA are required to rectify some errors that have been detected. The errors pertain to:

- the transaction limit of the Balance of Day product specification;
- a typing error in the prudential requirement specification;
- the times of withdrawal of orders in the trading system;
- and delivery netting information deadlines;
- correction of small typographical errors.

In the first two cases, the errors are likely to prejudice or threaten the effective operation of the Exchange when it commences on 20 March 2014 if not corrected. In all other cases, the amendments required to correct the errors are of a minor or administrative nature. Accordingly, AEMO is consulting on all of the required amendments under the expedited process in clause 3.4 of the EA.

3. PROPOSED AMENDMENTS

3.1. Balance-of-Day Product Limits

Schedule 5 item 1 describes the Product Specification for the Balance-of-Day gas Product, including the maximum quantity Product Limit in GJ per hour.

The Product Limit for the maximum Order Quantity is currently 32,000 GJ. For a Balance-of-Day Product, in accordance with the definition of Order Quantity in clause 12.1, this currently means that a maximum of 32,000 GJ per hour is possible. Clearly this is not the intended limit of this product and poses a risk that Trading Participants may inadvertently transact for larger amounts of gas than intended. AEMO proposes to change this limit to 1,450 GJ for the Balance-of-Day product so the maximum contracted flow is 1,450 GJ per hour¹.

Note that under this amendment, the maximum daily contracted quantity for the Balance-of-Day product will be lower than 32,000 GJ and the maximum daily contracted quantity will decrease as the trading day progresses².

Costs associated with making this amendment are minimal. As the maximum quantity can be modified by a configuration change, there are no modifications required to IT systems. This amendment will have the benefit of bringing the Product Specification in line with the original intention of the Exchange Agreement. Additionally it will mitigate the risk of traders inadvertently contracting significantly larger quantities than intended and potentially exceeding pipeline capacities.

The proposed amendment to Schedule 5 is shown in marked-up form below.

¹ This aligns with other product limits in the exchange agreement, which generally limit trades to 32,000 GJ per day. Over 22 trading hours, a 1,450 GJ per hour results in a maximum daily quantity of 31,900 GJ.

² For 22 trading hours (the maximum amount of hours for a Balance of Day product), the maximum daily quantity is 31,900 GJ (22 hours x 1,450 GJ/hour). If only 10 trading hours remain the maximum daily quantity is 14,500 GJ (10 hours x 1,450 GJ/hour).

Schedule 5: Product Specifications for Balance-of-Day Gas

1 RBP Trading Location

Product Specification for Balance-of-Day Physical Gas for Delivery at the RBP Trading Location	
Commodity	Gas complying with the Gas Specification.
Gas Day commencement	8:00am AEST
Start Time	The start of the hour starting not later than 60 minutes after the Transaction is confirmed by the Trading System.
Delivery Period	The Delivery Period starts at the Start Time and ends at the end of the Gas Day in which the Start Time falls.
Delivery Point	The RBP Trading Location, at the Delivery Point specified in the Offer, being one of the following: <ul style="list-style-type: none"> - Run 3 - Run 4 - Run 7 - RBP In Pipe Trade Point, as defined in schedule 2 for the RBP Trading Location.
Trading Window	For Gas Day D, Trading Hours on that same Gas Day.
Parcel Size	25 GJ/hour
Price	The price is to be expressed in dollars per GJ.
Product Limits	Minimum Price: \$0/GJ Maximum Price \$999/GJ Maximum Quantity 32,000 GJ (32 TJ) 1,450 GJ (1.45 TJ)
Unit	GJ
Admission to trade	Automatic
Gas Specification	The gas specification applicable to the Delivery Point as determined in accordance with schedule 2.
Flow Rate	Even flow rate through the Delivery Period.
Pressure	The pressure range applicable to the Delivery Point as determined in accordance with schedule 2.
Partial acceptance of Orders	Permitted if specified in the Order.
Minimum Transaction Quantity	25 GJ unless a larger number is specified in the Order.
Expiry Time	Unless an earlier time is specified in the Order, an Order for Gas Day D expires at the end of the Trading Window.
Automatic withdrawal	Not applicable.
Order Quantity to be displayed	The whole of the Order Quantity will be displayed unless otherwise specified in the Order.
Delivery Netting	Not applicable.
Special conditions	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 4) to deliver (in the case of the Seller) or accept (in the case of the Buyer) the Transaction Quantity.

3.2. Credit Support and Trading Limits

Clause 9.4.1(c) describes the Trading Limits of Market Participants, established by acceptable credit support. The clause is intended to specify that credit support expiring within 10 business days is to be disregarded when calculating a participant's Trading Limit. The current wording of the clause however does not convey this. The inadvertent inclusion of the word 'not' means that the provision has the opposite of the intended effect.

There are no costs associated with making this amendment, as the prudential systems currently operate in accordance with the intended effect. This amendment has the benefit of ensuring that acceptable credit support arrangements are clearly and correctly defined, and only credit support expiring within 10 business days will be disregarded. If not corrected, the EA would require all credit support expiring more than 10 days in the future to be disregarded. As amended, this clause will prevent Market Participants from trading using a Trading Limit supported by soon to expire credit support, and will ensure that Market Participants keep credit support facilities current.

The proposed amendment to clause 9.4.1(c) is shown in marked-up form below.

The Trading Limit of a Market Participant at any time is an amount equal to the amount of that participant's current valid and undrawn Credit Support, provided that any Credit Support having an expiry date of ~~not~~ less than 10 Business Days from the date of calculation must be disregarded.

3.3. Withdrawal of Orders

Clause 12.2(e) describes the process of automatic withdrawal of open Orders at the start of the pre-opening period each day. Open Orders will in fact be withdrawn at the end of each trading day³. The clause needs to be amended to reflect the actual operations of the Trading System. Further, amendments to schedule 3 and schedule 6 are required to accurately reflect the process for withdrawing open Orders for the Daily Gas Product and Weekly Gas Product.

The actual market impact of this change is not significant, as trading cannot occur between the end of Trading Hours and the start of the pre-opening period the next day. There are no costs associated with the proposed change, as it reflects the actual configuration of the Trading System. This amendment has the benefit that Members will be fully aware of the operation of the market and this is reflected accurately in the EA. The proposed amendments to clause 12.2(e) and Schedules 3 and 6 are shown in marked up form below.

Clause 12.2(e):

Unless otherwise specified in the relevant Product Specification, an open Order will be withdrawn automatically at the ~~start of each Pre-opening Period within the Trading Window~~ end of each trading day after 5:00pm.

³ 5:00 pm Eastern Standard Time

Schedule 3: Product Specifications for Daily Gas

1 RBP Trading Location

Product Specification for Daily Physical Gas for Delivery at the RBP Trading Location	
Commodity	Gas complying with the Gas Specification.
Gas Day commencement	8:00am AEST
Delivery Period	One Gas Day.
Delivery Point	The RBP Trading Location, at the Delivery Point specified in the Order, being one of the following: <ul style="list-style-type: none"> - Run 3 - Run 4 - Run 7 - RBP In Pipe Trade Point, as defined in schedule 2 for the RBP Trading Location.
Trading Window	For Gas Day D, Trading Hours on each of Gas Day D-7 to Gas Day D-2.
Parcel Size	1000 GJ (1 TJ)
Price	The price is to be expressed in dollars per GJ.
Product Limits	Minimum Price: \$0/GJ Maximum Price \$999/GJ Maximum Quantity 32,000 GJ (32 TJ)
Unit	GJ
Admission to trade	Automatic
Gas Specification	The gas specification applicable to the Delivery Point as determined in accordance with schedule 2.
Flow Rate	Even flow rate through the Delivery Period.
Pressure	The pressure range applicable to the Delivery Point as determined in accordance with schedule 2.
Partial acceptance of Orders	Permitted if specified in the Order.
Minimum Transaction Quantity	1000 GJ (1 TJ) unless a larger number is specified in the Order.
Expiry Time	Unless an earlier time is specified in the Order, an Order for Gas Day D expires at the end of the Trading Window.
Automatic withdrawal	Applicable to open Orders at the start of each Pre-opening Period within the Trading Window end of each trading day after 5:00pm.
Order Quantity to be displayed	The whole of the Order Quantity will be displayed unless otherwise specified in the Order.
Delivery Netting	Applicable
Special conditions	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 4) to deliver (in the case of the Seller) or accept (in the case of the Buyer) the Transaction Quantity.

Schedule 6: Product Specifications for Weekly Gas

1 RBP Trading Location

Product Specification for Weekly Physical Gas for Delivery at the RBP Trading Location	
Commodity	Gas complying with the Gas Specification.
Gas Day commencement	8:00am AEST
Delivery Period	Seven consecutive Gas Days, beginning and ending at 08:00 on a Sunday.
Delivery Point	The RBP Trading Location, at the Delivery Point specified in the Order, being one of the following: <ul style="list-style-type: none"> - Run 3 - Run 4 - Run 7 - RBP In Pipe Trade Point, as defined in schedule 2 for the RBP Trading Location.
Trading Window	For a Delivery Period commencing on Gas Day D, Trading Hours on each Gas Day commencing 4 weeks prior to Gas Day D and ending on D-2.
Parcel Size	1000 GJ (1 TJ) for each Gas Day in the Delivery Period
Price	The price is to be expressed in dollars per GJ.
Product Limits	Minimum Price: \$0/GJ Maximum Price \$999/GJ Maximum Quantity 32,000 GJ (32 TJ)
Unit	GJ
Admission to trade	Automatic
Gas Specification	The gas specification applicable to the Delivery Point as determined in accordance with schedule 2.
Flow Rate	Even flow rate through each Gas Day in the Delivery Period.
Pressure	The pressure range applicable to the Delivery Point as determined in accordance with schedule 2.
Partial acceptance of Orders	Permitted if specified in the Order.
Minimum Transaction Quantity	1000 GJ (1 TJ) per Gas Day unless a larger number is specified in the Order.
Expiry Time	Unless an earlier time is specified in the Order, an Order for Gas Day D expires at the end of the Trading Window.
Automatic withdrawal	Applicable to open Orders at the start of each Pre-opening Period within the Trading Window end of each trading day after 5:00pm.
Order Quantity to be displayed	The whole of the Order Quantity will be displayed unless otherwise specified in the Order.
Delivery Netting	Applicable
Special conditions	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 4) to deliver (in the case of the Seller) or accept (in the case of the Buyer) the Transaction Quantity.

3.4. Failure to Complete Delivery Netting

Under clause 14.7.2(f) of the EA, the Operator must give Trading Participants in a delivery pair information in the delivery schedule for Gas Day D after the end of Trading Hours on D-2.

Where delivery netting cannot apply for Gas Day D, fall-back provisions are covered in clause 14.7.3. Clause 14.7.3(a) and clause 14.7.3(b) outline the deadline for the Operator to provide Delivery Netting information for Gas Day D. The current deadline is 8:00am on D-1.

Due to system configurations, the deadline for delivery information and the trigger for the fall-back process must occur on the same calendar day. Clause 14.7.3(a) and clause 14.7.3(b) need to be amended to reflect a deadline on D-2, but within the same calendar day. The suggested deadline is midnight on D-2.

The actual market impact of this change is not significant, as participants will receive the information earlier than under the current EA. There are no costs associated with the proposed change, as it reflects the actual configuration of the Trading System. By making this amendment, it is ensured that market participants understand fully the operation of the market and the EA reflects current Trading System configurations.

The proposed amendment to clause 14.7.3 is shown in marked-up form below.

- (a) If the Operator is unable to provide Delivery Netting information for a Gas Day D and Trading Location under clause 14.2.7(f) by ~~8:00am on D-1~~ midnight on D-2:
 - (i) Delivery Netting will not apply to Relevant Transactions for that Gas Day and Trading Location; and
 - (ii) at that time, the Operator must give each party to a Relevant Transaction a delivery schedule setting out its Delivery Quantities and counterparties for the Gas Day and Trading Location, being the Transaction Quantities and counterparties under each of its Relevant Transactions.
- (b) If the Operator is unable to make a delivery schedule available under either clause 14.2.7 or paragraph (a) by ~~8:00am on D-1~~ midnight on D-2, each Relevant Transaction is taken to be void immediately after that time, but only to the extent of the parties' obligations to deliver, receive and pay for Physical Gas on the relevant Gas Day.

3.5. Typographical Errors

Some typographical errors have been identified in the EA, these are not significant in nature and are not expected to significantly change the meaning of the clauses. Proposed changes to clauses are shown in marked-up form.

For enhanced accuracy of grammar in the document, the following changes are recommended.

Proposed amendment to clause 3.2(b)(ii):

a notice in accordance with 3.3(b) or 3.4(b), as applicable; and

Proposed amendment to clause 6.1(b)(i):

the Member has given all information required of it under clause 5.2 and 5.3 to the Operator and the Operator has created all necessary authorised user identities for the Member in the Trading System;

Proposed amendment to clause 6.4(c)(ii):

the Member has an active Austraclear account and has given its account information to the Operator; ~~and~~

Proposed amendment to clause 13.1.2:

A Bid and an Offer constituting open Orders are taken to match when:

- (a) the Bid and Offer are for the same Product and for the same Delivery Period;
- (b) the Trading Participant who submitted the Bid is not the same person as the Trading Participant who submitted the Offer;
- (c) if partial acceptance of the Bid is permitted, the Order Quantity of the Offer is equal to or less than the Order Quantity of the Bid and greater than or equal to the Minimum Transaction Quantity for that Bid;
- (d) where partial acceptance of the Offer is permitted, the Order Quantity of the Bid is equal to or less than the Order Quantity of the Offer and greater than or equal to the Minimum Transaction Quantity for that Offer; ~~and~~
- (e) where partial acceptance is not permitted for either Order, the Order Quantity for both Orders is the same; and
- (f) the Price of the Bid is equal to or greater than the Price of the Offer.

Proposed amendment to clause 14.7.2(f):

Subject to clause 14.7.3, the Operator must give each Trading Participant in a delivery pair for Gas Day D the information in the delivery schedule for that delivery pair as soon as practicable after the end of Trading Hours on D-2.

Proposed amendment to clause 20.5.7(d)(ii):

Offsetting Buyers: P for 4 TJ and Q for 6 TJ-

Proposed amendment to clause 22.3:

Subject to clause 22.4, clause 22.2 does not prevent:

- (a) the use or disclosure of information that is in the public domain, other than as a result of a breach of clause 22.2 by the person seeking to rely on this provision or breach of an obligation owed to that person under clause 22.4(a); ~~or~~
- (b) the disclosure of information to officers, employees, auditors or professional advisers of the party or a Related Body Corporate for the purposes of this agreement or for obtaining advice about the application of this agreement;
- (c) the use or disclosure of Confidential Information with the consent of the person to whom the duty of confidentiality is owed;
- (d) the use or disclosure of information as required by law or a lawful requirement imposed by any Authority or any, recognised stock exchange;
- (e) the use or disclosure of information for the purposes of legal proceedings (including dispute resolution processes under this agreement, arbitration proceedings, proceedings when an expert determination of a disputed question, or proceedings by way of mediation or some other alternative dispute resolution mechanism); ~~or~~
- (f) the use or disclosure of information to protect the safety of any person or property; ~~or~~
- (g) the use or disclosure of information reasonably required in connection with the party's financing arrangements, investment in the party or a disposal of the party's assets; ~~or~~
- (h) the disclosure of information to the Operator, the AER, the AEMC, the ACCC or ASIC or another regulatory body having jurisdiction over the party; ~~or~~
- (i) the use or disclosure of information as required or authorised by or under the National Gas Law or the National Gas Rules; ~~or~~
- (j) the use or disclosure of information of a historical nature that does not identify the person to whom it relates, for the preparation of a report under this agreement; ~~or~~
- (k) the use or disclosure of information in an aggregated or other form in which its confidential aspects cannot be identified.

Proposed amendment to clause 23.3(g):

Each party represents in accordance with clause 23.1 or clause 23.2 (as applicable) that:

- (a) it is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation (and, if relevant under those laws, in good standing);
- (b) it has the power to execute the Membership Agreement and any other documentation relating to the Membership Agreement to which it is a party, to deliver the Membership Agreement and any other document relating to the Membership Agreement that it is required by the Membership Agreement to deliver and to perform its obligations under the Membership Agreement and this agreement

- and has taken all necessary action to authorise that execution, delivery and performance;
- (c) the execution, delivery and performance of the Membership Agreement and the performance of this agreement do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
 - (d) all governmental and other licences, authorisations, permits, consents and other approvals (if any) that are required to enable the party to fulfil any of its obligations under the Membership Agreement and this agreement have been obtained and are in full force and effect and all conditions of any required authorisations have been complied with;
 - (e) its obligations under the Membership Agreement and this agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms subject to applicable bankruptcy, insolvency, reorganisation, moratorium or similar laws affecting creditors' rights generally and subject as to enforceability to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law);
 - (f) no Default Event or event which with notice and/or lapse of time would constitute a Default Event has occurred with respect to it and is continuing and no such event or circumstance would occur as a result of it entering into or performing its obligations under the Membership Agreement or this agreement;
 - (g) no litigation, arbitration or administrative suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency, official or arbitrator is pending, so far as it is aware, threatened against it which would, if adversely determined, result in a material adverse changes in its financial condition or its ability to perform its obligations under the Exchange Agreement or this agreement, or that is likely to affect the legality, validity or enforceability against it of the Exchange Agreement or this agreement or its ability to perform its obligations under the Exchange Agreement or this agreement;
 - (h) it has negotiated, entered into and executed the Membership Agreement and the Exchange Agreement as principal (and not as agent or in any other capacity, fiduciary or otherwise);
 - (i) except in the case of fraudulent misrepresentation, it is not relying upon any oral or written representation, warranty or other assurance of any party other than expressly provided for or referred to in this agreement; and
 - (j) in the case of a party who is a Member, it has carried out all investigations it considers relevant to assess the risks associated with participation in the Exchange and use of information provided through the Trading System and the suitability of any Product or information for its purposes and has entered into a Membership Agreement with the full understanding of the material terms and risks of the Exchange Agreement and it is capable of assuming those risks; and
 - (k) in the case of a party who is a Member, the Operator is not acting as a fiduciary or an adviser for the party, nor has the Operator given to it any advice, representation, assurance or guarantee as to the expected performance, benefit or result of this agreement, any Product, any information provided through the Trading System, any

Transaction or otherwise in relation to or in connection with this agreement, or any transaction or arrangement contemplated under this agreement.

4. NEXT STEPS

AEMO invites comments on the proposed amendments from interested parties on or before close of business 18 March 2014. AEMO may consider late responses at its discretion, but is not obliged to do so. Respondents are asked to note that AEMO intends to publish its final decision before 20 March 2014, the proposed effective date.

Responses and questions should be sent in electronic format to the following email address:

hub_reference@aemo.com.au
