

Notice to Gas Supply Hub Exchange Members of amendments to the Gas Supply Hub Exchange Agreement for Removal of Security Deposit Limit

This Notice advises all Gas Supply Hub Exchange members and other interested stakeholders that AEMO has completed its consultation for the Gas Supply Hub Exchange Agreement – Removal of Security Deposit Limit (IIR 013).

AEMO proposed changes to the Gas Supply Hub Exchange Agreement to remove the limit on provision of security deposit as collateral. Currently, provision of security deposit as collateral is limit to \$100,000 or up to the value of any bank guarantees, whichever is the greater. Taking into account the assessment provided in the Impact and Implementation Report (IIR), AEMO has decided to implement the proposed amendments to the Exchange Agreement, effective from 15 August 2018.

AEMO received two submissions from stakeholders, in response to the proposed amendments to the Exchange Agreement as outlined in the IIR. A summary of the comments is shown in Attachment A.

The changes will be incorporated in version 11.0 of the Gas Supply Hub Exchange Agreement by including the amendments outlined in Attachment B. As required by the Gas Supply Hub Exchange Agreement clause 3.3(d) (iv), AEMO informs Participants that version 11.0 of the Gas Supply Exchange Agreement will be effective from 15 August 2018.

Notice Date: 24 July 2018

Attachment A: Summary of stakeholder comments on Gas Supply Hub Exchange Agreement Consultation IIR 013

Organisation	Summary of comment	AEMO's Response
Origin	Supportive of the proposed change.	Noted, the proposed amendments will be made.
Strategic Gas Market Trading	Supportive of the proposed change.	Noted, the proposed amendments will be made.
	<p>Raised a concern that the current exposure calculation ignores the inherent value in outstanding positions in the market.</p> <p>Currently, commitments to purchase commodity from the market for delivery in the future, requires 100% collateralisation against this position within 7 days from delivery. However, SGMT consider that the value of the outstanding position (for example, a purchase of 5 TJ for 3 days' time) remains at the prevailing market price in this window, rather than zero. This short-term movement in the spot price should be reflected in the credit support required from the buyer.</p> <p>SGMT encouraged consideration of further changes to the prudential framework to reduce barriers to trading for smaller participants.</p>	<p>AEMO notes the proposal to consider further changes to the prudential framework. However, such consideration is out of scope for this consultation.</p> <p>Under the current forward exposure calculation,</p> <ul style="list-style-type: none"> • Buyers provide 25% collateral against the face value of a transaction that is more than 7 days prior to delivery, and • Buyers provide 100% collateral against face value of a transaction within 7 days of delivery <p>Under this arrangement, as the delivery period approaches, the collateral requirements for a trade increase to ensure that the participant can meet the financial obligations associated with the delivery of their trade. If a participant does not have sufficient collateral to meet the value of their trade then a margin call is issued to the participant. If a participant fails to comply with a margin call then they are in default of their obligations and their trade would be closed out ahead of delivery.</p>

Attachment B: Amendments to the Exchange Agreement as set out in IIR 013

Documentation Changes

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

9.3 Security deposit amounts

~~(c) 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~~