

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

Issue Number	GSH IIR 001		
Impacted jurisdiction(s):	QLD All GSH Trading Locations		
Proponent:	Jonathan Smith	Company:	GLNG JV Parties: Santos GLNG P/L, PAPL (Downstream) P/L, Total GLNG Australia, KGLNG Liquefaction P/L
Affected gas markets(s):	Gas Supply Hub (GSH)	Consultation Type (Ordinary/Expedited):	Ordinary
Industry consultative forum(s) (ICF) used:	GSH Reference Group	Date ICF consulted:	30 October 2014
Short description of proposed change(s):	Amendments intended to allow unincorporated joint ventures to participate in the GSH exchange as a single GSH member or through an agent.		
Procedure(s) or documentation impacted:	GSH Exchange Agreement (including Schedule 1 – Membership Agreement) GSH Rules Methodology GSH Settlements & Prudential Methodology		
Summary of proposed change(s):	<p>Amendment of Exchange Agreement and related GSH documentation to allow for:</p> <ul style="list-style-type: none"> • a single Member to comprise multiple persons in a structure such as an unincorporated joint venture; • the participation and liability of each of them to be limited to a percentage interest as specified in the Membership Agreement; • the ability of each of them to transfer or assign its GSH membership interest, in whole or part, on notice to the Operator without prior approval. <p>Alternatively, amendments to allow for a person to become a Member in its capacity as agent for the participants in a joint venture either severally in proportion to each participant's joint venture interest or jointly and severally (as currently provided for in the Exchange Agreement).</p>		
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Date I&IR published:	20 November 2014	Scheduled date for end of consultation under EA 3.3, 3.4 or 3.6:	18 December 2014
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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>On 22 September 2014, AEMO received a proposal from the GLNG JV Parties to allow multiple parties to trade on the GSH exchange as a single Member, but with each party’s rights, obligations and liabilities limited to its specified participating interest share (the Initial Proposal). The GLNG JV Parties stated that the proposed changes would:</p> <ul style="list-style-type: none"> • accommodate the GLNG JV organisation and shareholding structure; • enhance liquidity by permitting a greater number of entities to enter the GSH given the variety of incorporated and unincorporated structures that might seek to participate in future. <p>In this Impact & Implementation Report (I&IR), the term ‘JV Member’ is used to refer to a potential GSH Member comprising multiple participants in an unincorporated joint venture or similar organisational structure.</p> <p>On 24 October 2014, the GLNG JV Parties submitted an alternate proposal, under which a joint venture could trade in the GSH through a single Member (such as the joint venture operator), who would enter into the Membership Agreement as agent for each of the participants (the Alternate Proposal).</p> <p>In this I&IR, the term ‘JV Agent Member’ is used to refer to an entity acting as agent for participants in an unincorporated joint venture or similar organisational structure who are GSH Members.</p> <p>On 29 October 2014 the GLNG JV parties provided more detail about the amendments proposed to implement the Alternate Proposal. The detailed amendments proposed two different approaches, one of which used a “several” liability approach similar to the Initial Proposal (the First Alternate Proposal) and the second of which used a “joint and several” liability approach (the Second Alternate Proposal).</p> <p>As a result, there are three different proposals to consider in this I&IR:</p> <ul style="list-style-type: none"> • the Initial Proposal; • the First Alternate Proposal; and • the Second Alternate Proposal. <p>The correspondence setting out these Proposals is attached to this I&IR.</p>
<p>2. Reference documentation</p> <ul style="list-style-type: none"> ▪ Exchange Agreement ▪ Other 	<p>Exchange Agreement:</p> <p>Initial Proposal: Clause 2.1; clause 2.6(l); new clause 3(h); clause 27.1(d); schedule 1 (Membership Agreement)</p> <p>First Alternate Proposal: Clause 2(1) definition of “Member”; clause 2.6(l); clause 5.2(b); clause 23.3(h); Membership Agreement, new clause 2(d) and new clause 3(h).</p> <p>Second Alternate Proposal: Clause 2.1, definition of “Member”; clause 5.2(b); clause 23.3(h); Membership Agreement, applicant party details, new clause 3(h) and changes to the signature block.</p> <p>Rules Methodology and the Settlements and Prudential Methodology (Initial Proposal):</p> <p>Initial Proposal: Amendments as required to clarify how delivery quantities and settlement amounts are allocated and prudential requirements calculated as between the individual participants in a JV Member.</p> <p>First Alternate Proposal: No changes identified (subject to modified</p>

	<p>approach outlined below).</p> <p>Second Alternate Proposal: No changes identified.</p>
<p>3. High level details of change(s), including:</p> <ul style="list-style-type: none"> ▪ Comparison of existing operation with changed operation ▪ Marked up version as amended (Attachment A) 	<p><u>3.1 Current operation</u></p> <p>The current EA contemplates that a single 'party' to the EA (which includes each Member), could comprise more than one person. In that case, clause 2.6(l) provides that those persons have joint and several liability. This means that other Members and the Operator are entitled to enforce their rights against all or any one of the persons who make up that Member, and performance by any of them is taken to be performance by the Member. Similarly, clause 26.2(b) provides that notices will be effective if given to or by any one of the persons who make up that party. Finally, assignment or novation of a Member's rights or obligations in the EA is prohibited by clause 27.1(d). This means that if the individual persons making up a member were to change, a new membership application would be required.</p> <p>In practice, AEMO's registration and settlement systems operate on the basis of a single ABN per Member.</p> <p>While the existing provisions accommodate traditional partnership arrangements, they do not suit unincorporated joint venture arrangements under which the individual participants wish to jointly market their gas, but sell it in their participating interest shares with their obligations and liability similarly limited.</p> <p>The current EA contains a warranty to the effect that a Member is not acting as an agent for anyone else.</p> <p>The current EA does not allow assignment or other transfer of interests under the EA by Members.</p> <p>Under the current EA, all amounts payable by or to a Member are owed to or by the Operator but Trading Participants ultimately carry all credit risk. The Operator holds collateral from trading participants designed to minimize the credit risk arising from exchange transactions, based on reasonable assumptions about potential defaults)</p> <p>Subject to the underlying arrangements between the joint venture participants, under the current EA it would be possible for participants in an unincorporated joint venture to trade gas on the GSH exchange either:</p> <ul style="list-style-type: none"> • as individual Members (noting that they may authorise the same representatives for the purposes of operations under the Exchange Agreement but Orders would be submitted and matched separately); or • through a single corporate entity as the Member, such as the joint venture operator, with an agreement between the joint venture participants to ultimately share rights and liabilities as between themselves in proportion to their respective joint venture interests. <p><u>3.2 Proposed operation – Initial Proposal</u></p> <p>Under the Initial Proposal, a JV Member would comprise a number of individual entities. Suitable arrangements would be required for each entity comprising the JV Member to satisfy the applicable criteria for membership and participation in the GSH.</p> <p>The liability of each joint venture participant comprising a JV Member would be limited to the extent of its joint venture participating interest. This would</p>

affect payment and prudential obligations and delivery and receipt requirements under the EA. The changes are illustrated below, in each case using an example of a JV Member comprising participants A, B and C, with participating JV interests of 50%, 30% and 20% respectively.

The Initial Proposal included a change to the representation in clause 23.3(h) to allow a party to participate as an agent where the agency was disclosed.

The Initial Proposal also allowed for the assignment, transfer or other disposal of a Member's interests under the EA without Operator consent.

Illustration – Initial Proposal

(a) Payment and prudential obligations

Assume the JV Member has entered into transactions such that a net amount of \$1000 is payable to the Operator. B does not pay.

Because liability is **several**, A and C have no liability to cover B's \$300 payment to the Operator. If credit support provided by B is not sufficient to cover the payment default, any residual amount will be recovered from the market as a whole (and not from A and C alone). A and C will not be in default so (without further amendments) the Operator's right to suspend the JV Member from trading is unclear.

It follows that in order to accommodate several liability, the Operator would need to apply the credit risk management arrangements to each joint venture participant comprising a JV Member as if it were an individual Member – but by reference to its participating interest share of the total trading exposure of the JV Member.

If B ultimately did not pay or provide additional credit support in a several liability regime, it would have to be made clear how the Operator could suspend or terminate participation only in respect of B. An alternative would be to modify the several liability principle so that A and C would also be suspended for B's default or when B's trading limit is reached.

(b) Delivery and receipt

Where a transaction is formed under the Exchange Agreement, all gas delivery and receipt obligations are owed to or by other Trading Participants.

Assume the JV Member has entered into transactions such that a net quantity of 10 TJ must be delivered to Trading Participant D. Only 7 TJ is delivered.

Under a strict several liability arrangement, it would be necessary to determine which of A, B or C is responsible for the shortfall. This may impose an additional cost on D. In addition, the delivery shortfall calculations would require modification.

Assuming that Trading Participant D should not be required to enquire as to which of A, B or C is responsible for the shortfall, then for settlement purposes the several liability principle would need to be modified. The shortfall cost would need to be calculated for the JV Member as a whole (avoiding double counting of tolerances or bands) and the shortfall charge allocated to A, B and C in their participating interest shares. This would then leave A, B and C to sort out between themselves financial responsibility for the shortfall.

(c) Assignment of EA rights and obligations

The proposed amendments would permit, for example, A to transfer 10% of its interest to B (scenario 1), or C to transfer all of its interest to a new participant D and exit the JV Member entirely (scenario 2). In both cases under the Initial Proposal, the Operator would have 'reasonable advance notice' of the change, but no consent would be required.

In scenario 1, provisions would need to be included for the Operator to

adjust the participating interest shares of A and B from the effective date of the change, but retain the original interests for transactions formed prior to that date and adjust collateral requirements accordingly until final settlement for those prior transactions. Alternatively, some other mechanism for close out and offset would have to be applied.

In scenario 2, in addition to the adjustments required under scenario 1, the Operator would have no opportunity to satisfy itself that D meets the criteria for participation in the GSH and the rules about termination of Membership would also be side-stepped.

3.3 Proposed operation – First Alternate Proposal

The First Alternate Proposal would allow a single entity (such as a joint venture operator) to interface with the GSH exchange – the **JV Agent Member** in this I&IR - but in its capacity as disclosed agent for the joint venture participants. The JV Agent Member would be required to advise the Operator if its agency was terminated and would give certain warranties about its authority and undertake not to enter into any transactions on its own behalf. The liability of each joint venture participant would be limited to the extent of its joint venture participating interest. Rights of joint venture participants would be held severally.

In the normal course of trading, delivery and settlement, the Operator and other Members would only deal with the JV Agent Member.

However, as disclosed principals, only the joint venture participants could sue or be sued in any legal proceedings arising out of the Exchange Agreement and in their respective participating interest shares.

The First Alternate Proposal does not deal with assignment of interests.

Illustration – First Alternate Proposal

To illustrate the effect of the arrangements, we again use the example of a joint venture comprising participants A, B and C with participating JV interests of 50%, 30% and 20% respectively. A, B and C have appointed the JV operator to act as the JV Agent Member and the JV operator has executed the Membership Agreement on their behalf.

Under general principles of agency law, A, B and C are the 'real' parties to the Exchange Agreement (and under the First Alternate Proposal, comprise one Member) and the JV Agent Member is not a party to the Exchange Agreement.

(a) Payment and prudential obligations

Assume the JV Agent Member has concluded transactions such that the net amount of \$1,000 is payable to the Operator. When the time comes for payment, the JV Agent Member only pays \$700.

Because liability is several, the Operator would need to determine which of A, B and C is in payment default. Assuming that it can obtain this information from the JV Agent Member (or otherwise), and that the participant in default is B then A and C have no liability to cover B's \$300 payment to the Operator.

If the JV Agent Member has lodged collateral, then the Operator could have recourse to that collateral. Under a strict several liability arrangement, and assuming that A, B and C have each contributed the collateral in their respective shares, the Operator could have recourse to 30% of the total amount. It follows that the credit risk monitoring required by the Operator is similar to that required for the Initial Proposal.

A modified approach would be possible under which the Operator could have recourse to the full amount of the collateral regardless of which of A, B or C is in default. A, B and C would need to sort out among themselves any issues arising from that approach.

Under most scenarios, the collateral should be sufficient to cover the amount of the default (and any close out payment). However, if the default exceeded the collateral, the Operator could only pursue B for the shortfall, due to the several liability principle.

In addition, only B would be in default. As for the Initial Proposal, it would have to be made clear how the Operator could suspend or terminate participation only in respect of B or the rules would need to allow suspension of A, B and C if any one of them is in default.

(b) *Delivery and receipt*

Assume that the JV Agent Member has concluded transactions such that a net quantity of 10 TJ must be delivered to trading participant D. Only 7 TJ is delivered.

The same issues arise as under the Initial Proposal.

(c) *Agency termination etc*

Assume that the agency arrangement of the JV Agent Member was terminated by the joint venture participants or that the JV Agent Member acted outside the scope of its authority.

The First Alternate Proposal places the obligation on the JV Agent Member to give notice to the Operator of the termination and the agent warrants it has authority to complete transactions entered into while acting as agent, even if the agency is revoked. If the JV Agent Member breaches these obligations or warranties (assuming they are given in its own capacity and not as agent) it is not clear what remedies are available against the JV Agent Member, nor whether the joint venture participants are nonetheless bound by the acts of the JV Agent Member.

This approach could be modified in line with typical agency provisions such that the obligation is placed on the joint venture participants to notify any termination of the agency arrangement and requiring them to take responsibility for all acts of the JV Agent Member regardless of the terms or status of the agency agreement.

(d) *Assignment*

Assignment was not addressed in the First Alternate Proposal.

3.4 Proposed Operation – Second Alternate Proposal

The Second Alternate Proposal would allow for a JV Agent Member, as disclosed agent for each of the joint venture participants, to be the primary interface with the market, as in the First Alternate Proposal. The JV Agent Member would be required to advise the Operator if its agency was terminated and give certain warranties about its authority and to undertake not to enter into any transactions on its own behalf. However, the liability of each joint venture participant would be joint and several.

The Second Alternate Proposal does not deal with assignment of interests.

Illustration – Second Alternate Proposal

This illustration also uses the example of a JV Agent Member who is acting

	<p>as agent for joint venture participants A, B and C with participating interests of 50%, 30% and 20% respectively.</p> <p>(a) <i>Payment and prudential obligations</i></p> <p>Assume the JV Agent Member has concluded transactions such that a net amount of \$1,000 is payable to the Operator. Only \$700 is paid.</p> <p>Because liability is joint and several, there is no need for the Operator to enquire as to which of A, B or C has failed to pay. It can pursue payment of a shortfall amount from A, B and C collectively and individually. It can have recourse to the payment collateral provided by the JV Agent Member and without regard to the participating interest shares of the joint venture participants.</p> <p>If the JV Agency Member fails to pay or provide additional credit support, the Operator would suspend or terminate participation by all of A, B and C, since if one of them is in default then they are all in default.</p> <p>(b) <i>Delivery and receipt</i></p> <p>If there is any delivery shortfall, there would be no need to enquire as to which JV member was at fault and the whole of any shortfall charge would be allocated to the JV Agent Member.</p> <p>(c) <i>Agency termination etc</i></p> <p>Refer to the discussion in relation to the First Alternate Proposal.</p> <p>(d) <i>Assignment</i></p> <p>Assignment was not addressed in the Second Alternate Proposal.</p> <p>It would not be necessary to record changes in the participating interests of the joint venture participants. Changes to the joint venture participants could be accommodated if the joint venture participants first becomes a Member and the outgoing Member is subject to the usual rules about termination of Membership.</p>
<p>4. Assessment of significance of change (eg: Major, material, non-material)</p>	<p>Major change in relation to systems for Initial Proposal and the First Alternate Proposal.</p> <p>Minimal systems changes required for the Second Alternate Proposal (and possibly also for a modified version of the First Alternate Proposal).</p>

ASSESSMENT OF LIKELY EFFECT OF PROPOSAL	
<p>5. Overall industry cost / benefit (tangible/intangible/risk) analysis and/or cost estimates</p>	<p><u>Potential benefits</u></p> <p>The GLNG JV Parties submit that the changes would facilitate exchange trading by the GLNG JV, and potentially other joint ventures and similar unincorporated structures, increasing liquidity in the market.</p> <p>Based on available information, AEMO is unable to quantify the incremental amount of gas or number of parties that would trade on the GSH exchange if these changes were made, but would not do so under the current EA.</p> <p>AEMO notes the possibility that some participants in unincorporated joint ventures may elect to trade on the exchange even if these amendments were not made - either as individual Members, or through a nominated</p>

participant or JV operator with underlying agreements as to the ultimate liability of the parties among themselves.

Members are asked to consider what benefits they perceive will flow from allowing JV Members to participate on a several liability basis as proposed, and to quantify these benefits if possible.

Potential costs and risks

(a) Several liability risk – Initial Proposal

Trading Participants should not face any added risk in entering into a transaction with a JV Member on a several liability basis, given that settlements are conducted through the Operator. Credit risk is carried collectively by the market as a whole.

If the system can be modified to allow separate credit monitoring for each joint venture participant, the credit risk should not be any greater than it would be if each JV participant contracted as an individual Member.

Members are nonetheless asked to consider whether they perceive any inherent additional risks arising from allowing JV Members to participate on a several liability basis, and if so, to quantify these risks if possible.

(b) Agency risk – First Alternate Proposal

Ultimately the individual joint venture parties would remain severally liable for the actions of the agent under the Alternate Proposal but exchange systems and transactions would only deal with a single entity Member.

Significant changes to the GSH systems would be needed unless provisions are implemented that modify the strict several liability approach along the lines outlined at (c) below.

The agent would effect or accept transfer of title to gas at a delivery point on behalf of the joint venture parties as their authorised agent.

As outlined above, the First Alternate Proposal could be modified to address risks to the market arising from the use of an agent such as termination of the agency or acting outside the scope of authority.

Members are asked to consider whether they perceive any other inherent risks arising from allowing JV Members to participate in their respective shares through a disclosed agency arrangement and if so to quantify these risks if possible.

(c) Delivery netting, variances, credit support and default risk

Anonymous trading on the GSH exchange is supported by a framework under which all amounts are payable by or to the Operator, supported by a robust prudential framework and default and suspension mechanism. AEMO considers that the changes as proposed present consequential issues for the management of delivery netting and variances, credit support and default. AEMO's preliminary view is that, in order to be workable without undue risk to these frameworks, the following principles would need to apply under the Exchange Agreement, Rules Methodology and Settlements and Prudential Methodology to:

- require the participation criteria to be satisfied by each participant forming part of the JV Member (or for whom the JV Agent Member is acting as agent) at all times;
- require all participants comprising the JV Member to be bound by the actions of any of them under the Exchange Agreement (or in the case of the two Alternate Proposals, by each of them and the JV Agent Member);

- provide that the Operator and other Members will perform their obligations to the JV Member through dealings with any one of its participants (or the JV Agent Member, in the case of the Alternate Proposals), including payment and delivery obligations;
- for the Initial Proposal and the First Alternate Proposal treat the act or default of one joint venture participant (or the JV Agent Member) as an act or default by all so that suspension, default, termination and closeout arrangements can work as intended. This may in turn require changes to the prudential provisions to allow the Operator to monitor the credit position of each joint venture participant comprising the JV Member.

This would apply to all three Proposals. In the case of the Initial Proposal and the First Alternate Proposal, this modifies the principle of several liability to such an extent that it in effect operates as joint liability.

(d) Transfer of participating interest

The Initial Proposal proposed unrestricted transfer of participating interests. Section 3 of this I&IR highlights potential issues for the prudential framework of the GSH if unrestricted transfer is allowed. As indicated in that discussion, change to the joint venture participants or the participating interests of the joint venture participants could be allowed provided that the Exchange Agreement preserves the operation of the prudential arrangements.

The two Alternate Proposals did not deal with the transfer of interests or changes to the participating interest shares of joint venture participants.

In the case of the First Alternate Proposal, the same issues arise as for the Initial Proposal due to the several liability structure.

In the case of the Second Alternate Proposal, because joint venture participants would participate through an agent on a joint and several liability basis, changes to the participating interest shares would not need to be notified. Changes to the joint venture participants could be accommodated.

Participants are asked to comment.

(e) Warranties

The two Alternate Proposals modified the representation to the effect that a Member is not an agent.

Assuming that the agent is not itself a member, the representation does not need to be modified.

(f) Competition issues

AEMO has considered whether any risks arise for the Operator or Trading Participants, in the ordinary course of operating or trading on the exchange, from the potential application of any *Competition and Consumer Act* prohibitions to the joint marketing or sale of gas by the joint venturers. At this stage AEMO considers that potential competition law issues are matters for the JV participants themselves to address. In terms of the proposed changes to the EA, AEMO considers that no further changes are necessary on this point, noting the terms of the warranties given by each Member under clause 23.3(c) (relating to compliance with laws) and clause 23.3(e) (affirming that obligations are valid and binding).

(g) Market systems

Initial Proposal:

Even with the modifications outlined above, significant changes to most or all of AEMO's back-end systems would be required in order to accommodate JV Members under a several liability arrangement as

contemplated in the Initial Proposal. These are outlined below.

First Alternate Proposal:

AEMO considers that if a JV Agent Member is used, this could only be on the basis set out at (c) above. If these principles are implemented, then the changes to AEMO's systems required for the First Alternate Proposal would be limited and may be confined to the registration systems.

Second Alternate Proposal:

Changes to AEMO's systems required for the Second Alternate Proposal would be limited and may be confined to the registration systems.

Outline of system changes for several liability

AEMO estimates it would take between 260 and 390 days to implement the Initial Proposal, resulting in an estimated cost between \$150,000 and \$235,000. Time and costs are split between development, testing and implementation, estimated as follows:

Development (Initial Proposal):

- Design and analysis: 20d.
- Settlements: 10d.
- Prudentials: 8d.
- GSH Global Vision Server (Real-time prudential check): 5d.
- Registration: 8d.
- Invoicing: 10d.
- Test Support: 30d.
- Release, implementation, etc: 5d.
- Total: 96 days.

Development Range 60 – 130 days

Testing (Initial Proposal):

- Testing Scope: 10d.
- Settlements: 20d.
- Prudentials: 10d.
- GSH Global Vision Server (Real-time prudential check): 5d.
- Registration: 15d.
- Invoicing: 10d.
- Test Planning and execution Support: 30d.
- UAT Support : 15d
- Release, implementation, etc: 5d.
- Total 120d

Testing Range 90 – 150 days

Implementation Costs for DBA and platform (Initial Proposal): 20 days

Project Management (60) + Business Architect + Documentation (30): 90 days

Outline of system changes for JV Agent Member - Joint & several liability

	<p>To implement an automated system solution for the Second Alternate Proposal, AEMO estimates it would take between 105 and 140 days, resulting in an estimated cost between \$63,000 and 85,000. However, AEMO is continuing to investigate whether a manual ‘workaround’ solution would be possible at a reduced cost. Time and costs for the automated solution are split between development, testing and implementation, estimated as follows:</p> <p>Development:</p> <ul style="list-style-type: none"> • Design and analysis: 3d. • Registration: 10d. • Test Support: 7d. • Release, implementation, etc: 1d. • Total: 21 days. <p>Development Range 20 – 40days</p> <p>Testing</p> <ul style="list-style-type: none"> • Registration: 12d. • Test Planning and execution Support: 9d. • UAT Support : 10d • Release, implementation, etc: 5d. • Total 36d <p>Testing Range 35d – 45d</p> <p>Implementation Costs for DBA and platform: 10 days</p> <p>Project Management (30) + Business Architect + Documentation (15): 45 days</p>
6. Likely implementation effect on stakeholders (e.g. Industry or end-users)	Incorporated in discussion above.
7. Testing requirements	Incorporated in section 5(e).
<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 provisions relating to the establishment and operation of gas trading exchanges do not address matters directly relating to the issue of joint and/or several liability, or of Members comprising multiple persons. With the possible exception of certain aspects of the market conduct rules (described below), the proposals are not directly inconsistent with those NGL and NGR provisions.</p> <p>In the absence of a rule change, the principle of several liability would not apply to the market conduct rules (NGR Part 22, Division 5). Among other things, the market conduct rules prohibit the buying and selling of products on the exchange by a member “with the intention of causing a transaction with itself”. There are also rules relating to transactions with associates. If a related corporation of the participant in a JV Member (or one of the joint venture parties who are principals under an agency arrangement) were also a Member in its own right, this might cause compliance issues.</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>An increased number of participants in the GSH would be expected to lead to</p>

	<p>greater liquidity and therefore potentially greater access to short term gas supplies and more robust pricing information, all of which is likely to promote competition in the market in the long-term interests of consumers.</p> <p>However, the proposed changes in the Initial Proposal involve a cost which must be recovered from GSH participants. AEMO seeks input from existing Members as to whether the increased cost and/or risk would act as a disincentive for current Members to trade in the GSH, either at all or in larger volumes.</p> <p>The rules relating to participation in other AEMO-operated markets do not recognise participation on a several liability basis, although AEMO acknowledges that gas production joint venturers do not necessarily participate in those markets. The following provisions illustrate how liability issues arising from joint activities in those markets are handled:</p> <ul style="list-style-type: none"> • The National Electricity Rules include a framework for participation through an “intermediary” on a joint and several liability basis between the intermediary and those who would otherwise be required to register (clause 2.9.3). • The NGL (section 10) deals with a situation in which more than one service provider owns, controls or operates a pipeline. One of the service providers may act “on behalf of” the other service providers in the group, with the written permission of all the other members of that group. Similar arrangements apply under the STTM rules in relation to STTM production facilities. <p>The ASX 24 Operating Rules govern participation in the platform through which some energy-related products are traded. Under Rule [1000], to be eligible for admission as a trading participant an applicant must (among other things) be a body corporate which is incorporated as a company or registered as a foreign company under the Corporations Act and must not be acting in a trustee capacity.</p> <p>This requirement is modified for partnerships under Rule [1500] to [1506] (although no new applications for admission by partnerships will be approved). The rules apply to the partnership as if it were a person, with obligations imposed on a trading participant imposed on each partner jointly and severally but may be discharged by any of the partners. A rule breach is taken as a breach by each partner. A change in the composition of the partnership does not affect the continuity of the partnership, with each new partner being required to give specified compliance undertakings.</p> <p><u>Potential compliance costs</u></p> <p>Operator compliance costs are outlined in section 5(e)</p> <p>AEMO has not identified any specific compliance costs for Members.</p>
<p>9. Consultation Forum Outcomes</p> <p>(Views expressed by majority and any dissenting views)</p>	<p>The Initial Proposal was discussed at the Gas Supply Hub Reference Group meeting on 30 October 2014 and the Alternate Proposals were briefly considered.</p> <p>AEMO circulated a paper to the GSHRG mailing list on 31 October 2014 seeking comment on specific issues raised by the proposals.</p> <p>A number of responses were received.</p> <p>Some responses were either neutral or indicated general support for the proposed amendment, without considering the individual alternatives in any detail.</p> <p>In the responses that considered the Proposals in more detail the following points were raised:</p> <ul style="list-style-type: none"> • An expression of support for the existing arrangements (such that if a Member happens to comprise more than one person the market does

	<p>not need to be concerned with the underlying interests in terms of liability).</p> <ul style="list-style-type: none"> • Comments (opposing the Proposals) to the effect that the individual allocation of liability in the joint venture is a matter for the joint venture participants to manage outside the market. • Comments opposing the Initial Proposal on the basis that it was too costly and complex to implement, given that the cost would ultimately need to be recovered from participants. • Comments supporting the Second Alternate Proposal provided that in effect, liability was joint and several and there were no other residual risks to market and no residual impacts to market operations.
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RECOMMENDATION(S)	
<p>10. Should the proposed changes be made, (with or without amendments)?</p>	<p>AEMO recommends that a modified version of the Second Alternate Proposal should be implemented.</p> <p>The Initial Proposal would require modifications to AEMO's systems which will impose a cost on all market participants. Based on feedback to date, Members seem unwilling to bear this cost on the basis that joint venture participants can deal with allocation of liability among themselves outside the scope of the market and so the benefits in terms of enhanced liquidity can be achieved without incurring those costs).</p> <p>The First Alternate Proposal, unless modified, raises the similar issues to the Initial Proposal.</p> <p>A modified version of the First Alternate Proposal, as outlined above, may limit the need for system changes. However the modifications would in effect treat certain obligations as joint and so adds complexity.</p> <p>The Second Alternate Proposal (unmodified) is expected to require relatively few system changes and so the same cost issues do not arise. Nonetheless AEMO considers that a modified version of the Second Alternate Proposal is preferable, in order to address issues arising out of the agency arrangement and to provide a more structured framework for the use of a JV Agent Member.</p> <p>The proposed modified amendments are set out in the attachment. They operate as follows:</p> <ul style="list-style-type: none"> • Two more entities submit a joint membership application including information about the proposed agent. • The proposed agent must satisfy criteria such as not being insolvent. It can also be a Member. • Assuming the application is accepted, the applicants each becomes a Member (separately). (Separate Membership Agreements must be executed for each. This simplifies the arrangements for changes to the joint venture participants, noted below.) • The agent participates in the exchange for the appointing Members. The Members are jointly and severally liable for the acts of the agent. Other general principles are included to confirm that the appointing Members take responsibility for all acts of their agent in relation to the Exchange. • The appointing Members can change the agent, new appointing Members can be added or an appointing Member can withdraw, subject to the usual rules about termination of membership.

	<ul style="list-style-type: none">• If the agent does not satisfy the eligibility criteria at any time then the appointing Members can be suspended from trading until the position is sorted out.• Each Appointing Member represents that it has authorised and ratified all acts of the agent.
11. If applicable, proposed effective date and justification for timeline	[TBC]

ATTACHMENT A – DOCUMENTATION CHANGES (Modified Second Alternate Proposal)

Marked up changes proposed by GLNG JV Parties – Initial Proposal, First Alternate Proposal and Second Alternate Proposal

Proposed changes by the GLNG Parties are included in the correspondence dated 18 September (sent on 22 September) and 24 October respectively.

The proposed changes recommended by AEMO to implement the modified Second Alternate Proposal are set out in the attached mark-up of the Exchange Agreement, specifically the following clauses:

1. Clause 1.3 Membership Agreements
2. Clause 2.1 Definitions: Insert new definitions of Agent Member and Appointing Member and amend existing definition of Member
3. Clause 2.10 Agent Members: Insert new clause 2.10
4. Clause 4.1 Eligibility: Insert new clause 4.1(d) and note after clause 4.1(c).
5. Clause 4.2 Application Process: Amend the clause.
6. Clause 4.5: Insert the following new clause 4.5 after clause 4.4.
7. Clause 5.1 Participant categories: Insert the following new clause 5.1(c) after clause 5.1(b).
8. Clause 5.2 Register of Members: Amend the clause as shown below.
9. Clause 5.3.1 Members to Nominate Representatives: Amend clauses (a) and (b) as shown below.
10. Clause 23.2 Representations by all parties: Amend clauses 23.2(h) to (k) and insert a new clause 23.2(l) as shown below.
11. Schedule 1, Membership Agreement: Amend the 'Parties' section as shown below.
12. Schedule 1, Membership Agreement: Add the following execution block at the end.