

IMPACT & IMPLEMENTATION REPORT (IIR)

Issue number	18		
Impacted jurisdiction(s)	Queensland, New South Wales, South Australia, Northern Territory, Tasmania, Victoria, Australian Capital Territory		
Proponent	AEMO	Company	AEMO
Affected gas market(s)	Gas Supply Hub	Consultation process (ordinary or expedited)	Ordinary
Industry consultative forum(s) used	Gas Supply Hub Reference Group		Click or tap to enter a date.
Short description of change(s)	Amendments to the Gas Supply Hub Exchange Agreement to: <ul style="list-style-type: none"> Extend non-netted monthly products trading window to twelve months (from current six months) Permit custom delivery periods for Moomba and Wallumbilla daily products 		
Procedure(s) or documentation impacted	Gas Supply Hub Exchange Agreement		
Summary of the change(s)	Custom delivery periods: <ul style="list-style-type: none"> New definition for a custom delivery period. New clause 13.8 to facilitate custom delivery periods. Amendments to schedules 9 and 22 to permit custom delivery periods. Amendments to schedules 12, 13, 20, 21, 23, 24, 25, 26, 27 and 28 to not permit custom delivery periods. Extending trade window for non-netted monthly products to twelve months: <ul style="list-style-type: none"> Non-netted product trade windows in schedules 13 and 22 changed from six months to twelve months. 		
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Date IIR published	24 July 2020	Date consultation concludes	20 August 2020
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IMPACT & IMPLEMENTATION REPORT – DETAILED REPORT SECTION

CRITICAL EXAMINATION OF PROPOSAL

1. DESCRIPTION OF ISSUE

1.1. Extending the trading window for pre-matched monthly products to 12 months

Background

The Gas Supply Hub provides a range of products that facilitate the trading of gas ahead of the gas day enabling participants to lock in forward positions as part of their portfolio management. Monthly products are the longest-dated products, allowing participants to trade a month's worth of gas in a single transaction. Trade in monthly products has grown over time as liquidity in the market has developed. A large portion of trades executed in monthly products are pre-matched (also known as off-market trades) reflecting bilateral deals and brokered transactions.

In 2019, in response to industry feedback, AEMO proposed extending the trade window for pre-matched deals in monthly products to enable market participants to trade further along the forward curve. Following industry consultation, in August 2019 through an Exchange Agreement amendment and system upgrade, AEMO extended the trading window for pre-matched trades in monthly products out to six months. Six months was initially selected due to system processing limitations. These limitations have now been addressed and a longer trade window can be facilitated in the system for GSH products.

Extending the trading window from 6 to 12 months.

Based on additional industry feedback received in 2019 and subsequently at a Gas Supply Hub Reference Group forum in May 2020, there is demand for further extending the trading window for monthly products to facilitate longer-dated trades (particularly brokered pre-matched trades) through the GSH. With the system limitations resolved, AEMO is proposing to extend the trading window for pre-matched trades in monthly products to twelve months from the current six months. AEMO considers that now is an appropriate time to further extend the trading window especially as there will be efficiencies in implementing this change at the same time as other changes to the market (see section 1.2).

Based on initial industry feedback, it is proposed that (similar to the initial six-month extension) the extended trade window for monthly products will only be available for pre-matched trades with the trade window for on-market trades in monthly products remaining at 3 months. If, in the future, there is demand for the on-market product trade windows to be extended out to 12 months only a minor change to Exchange Agreement and the Electronic Trading System would be required. AEMO welcomes any feedback from GSH members on this matter.

1.2. Custom date ranges (delivery periods) for pre-match trades

Background

All products on the GSH have a set and pre-determined delivery period that refers to a specific calendar date range. For example, monthly products are for consecutive days from the first day of the calendar month to the last day of the calendar month and a weekly product is for seven consecutive gas days beginning and ending at 6:00AM on a Sunday. While these prescribed periods are adequate for the majority of trades, participants have raised with AEMO that for certain bespoke transactions greater flexibility would be beneficial. For example, a participant may want to trade a week's worth of gas in two weeks' time between Wednesday and Thursday and at present a weekly product cannot be utilised for such a transaction. Participants can work around this limitation by submitting individual daily transactions for the desired date range however this option creates execution risk and is particularly cumbersome for trades that may span a long date range requiring many submissions and confirmations.



In 2019, in response to industry feedback, AEMO proposed to implement custom delivery periods for pre-match trades. Custom delivery periods allow a participant to specify a start date and end date for a trade. The system will then automatically create a product(s) for the participant's specified date range. This change would mean that a participant can execute a pre-matched traded for a custom date through single entry in the electronic trading system.

Proposed solution – custom delivery periods for daily products

AEMO is proposing that a custom delivery period concept be introduced to the GSH. This new functionality would permit participants to specify a bespoke delivery period for a product that does not have to align with the prescribed delivery period in the product's schedule. AEMO is proposing that this new functionality will be enabled for pre-matched trades in daily products at all trading locations. All other rules related to pre-matched transactions will still apply.

To utilise a custom delivery period, the initiating participant for a pre-matched trade will be able to specify a start and end for the delivery period for a daily product. The counter party will confirm the start and end date as part of the standard confirmation process for pre-matched transactions. After submitting (and the counterpart confirming) a custom date range for a pre-matched transaction, the system will execute a trade between the counterparties as a series of daily products for each date included in the date range. This solution should minimise execution risk and prove to be a more convenient means of executing trades for bespoke date ranges than the current arrangements. Except for the custom delivery, all other features and obligations of a daily product will still apply.

To facilitate this change AEMO has had to make minor updates to the Electronic Trading System (ETS). In addition, AEMO will need to amend the Exchange Agreement to create the ability of participants to specify and then execute trades in certain products using the new custom date range feature.

Further detail on how this new functionality is proposed to work please see the slide pack distributed to the Gas Supply Hub Reference Group in May 2020.

2. REFERENCE DOCUMENTATION

Attachment A

3. OVERVIEW OF CHANGES

Extending the trade window of monthly products (non-netted and pre-matched trades only).

Changes to the Exchange Agreement will be made to increase the trade-window for non-netted and pre-matched trades in monthly products out to twelve months. Specifically, these changes include:

- Updating the product specification for Monthly Physical Gas (Wallumbilla) for pre-matched trade where the Trading Participants have specified that delivery netting is not to apply to extend the trade window to 12 months. This will include monthly products at SEQ.
- Updating the product specification for Monthly Gas (Moomba) for Pre-matched trades to extend the trade window to 12 months.

The exchange trading system will also be updated to permit trades up to 12 months in relevant products.

Please refer to attachment A for the amended drafting.

Permitting custom order ranges for pre-matched trades.

Changes to Exchange Agreement are required to facilitate this new functionality for orders and trades. Specifically:



- A new custom delivery period concept (see the description above) has been introduced to the body of the Exchange Agreement. This new clause explains how the custom delivery period functionality works and interacts with the existing set of products. The ability to use custom delivery periods is available on a product by product basis as specified in the relevant product's product specification.
- The daily product specifications for Moomba, Wallumbilla and SEQ have all been changed to permit custom delivery periods for pre-matched and non-netted transactions. Note that other order types and products are not permitted for delivery periods at this point.

The electronic trading system (Trayport) will be upgraded allowing participants to submit a custom date range for permitted products.

Please refer to attachment A for the amended drafting.

4. LIKELY IMPLEMENTATION EFFECTS AND REQUIREMENTS

AEMO considers that the implementation effects to industry are minor in nature. The new functionality for both custom delivery periods and extended monthly products do not require a change to participant systems or reports. Participants who wish to utilise either feature may need to update their internal business processes.

5. OVERALL COST AND BENEFITS

The implementation costs of these changes are minor and AEMO expects no increase to ongoing GSH costs resulting from these changes. Based on industry feedback AEMO considers that these enhancements will deliver the following benefits:

- Extended monthly products out to 12 months will facilitate greater forward trading of gas by participants aiding with risk and portfolio management.
- Custom delivery periods will facilitate additional pre-matched transactions through Gas Supply Hub that might otherwise be transacted bilaterally and outside of the market.

Use of the Gas Supply Hub and these new features is voluntary, and participants are able to undertake their own assessment of whether the benefits of participation outweigh any cost to their organisation.

6. MAGNITUDE OF THE CHANGES

AEMO considers these changes are of a minor magnitude. The proposed changes require material but minor changes to the Exchange Agreement and market systems. AEMO considers that impact on industry participants is not material.

7. AEMO'S PRELIMINARY ASSESSMENT OF THE PROPOSAL'S COMPLIANCE WITH SECTION 135EB:

In accordance with NGR rule 135EB and NGR rule 540, AEMO is satisfied that the proposed changes will contribute to the National Gas Objective as they:

- are likely to result in additional volumes of gas being transacted through the Gas Supply Hub improving information transparency and promoting the efficient operation of the gas market.
- are likely to improve the ability for participants to transact in the market at a lower cost compared to current arrangements.



- aid risk and portfolio management through the ability to trade gas out 12 months.
- are not costly to implement.

8. CONSULTATION FORUM OUTCOMES

AEMO raised both changes at an industry forum September 2019 and a subsequent forum in May 2020. AEMO received supportive feedback for both proposed changes from industry participants. No material concerns were raised.



IMPACT & IMPLEMENTATION REPORT – RECOMMENDATION(S)

9. SHOULD THE PROPOSED PROCEDURES BE MADE)?

AEMO recommends that the proposed amendments to the Gas Supply Hub Exchange Agreement are made.

10. PROPOSED TIMELINES

AEMO is proposing an implementation date of September 14 for the GSH Exchange Agreement changes. AEMO will provide market participants with 15 business days' notice prior to commencement.



ATTACHMENT A – DOCUMENTATION CHANGES (SEE SECTION 3)

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

Clause 12.1 – definitions

Term	Definition
Delivery period	For Physical Gas, the period over which the delivery of the Commodity is to take place, as specified in the Order or, for a Pre-matched Trade or Broker Pre-matched Trade, as specified in the details submitted and confirmed for the Pre-matched Trade or Broker Pre-matched Trade and includes a Custom Delivery Period. For Physical Capacity, the Service Term.
Custom Delivery Period	See clause 13.8

New clause 13.8 – Custom delivery periods

- (a) Subject to clause 13.8(b), if permitted in the Product Specification for a particular Product, when submitting the details of a Pre-matched Trade under clause 13.2 or a Broker Pre-matched Trade under clause 13.3, a Trading Participant or a Broker Participant (as applicable) may submit a Delivery Period for that Product in the Trading System that is different from the Delivery Period specified in the Product Specification for that Product, known as a Custom Delivery Period.
- (b) To submit a Custom Delivery Period, at the time of submitting the details of a Pre-matched Trade or Broker Pre-matched Trade, the Trading Participant or Broker Participant (as applicable) submitting the Pre-matched Trade or Broker Pre-matched Trade (as applicable) must specify a start date and end date for the Delivery Period that is consistent with the requirements in the relevant Product Specification.
- (c) If a Trading Participant or a Broker Participant has submitted a Custom Delivery Period, confirmation of that Pre-matched Trade or the Broker Pre-matched Trade by a second Trading Participant in accordance with clause 13.2 (in relation to a Pre-matched Trade) or a Broker Participant or a Trading Participant in accordance with clause 13.3 (in relation to a Broker Pre-matched Trade) constitutes agreement to that Custom Delivery Period between the Trading Participants (in relation to the Pre-matched Trade) or the Broker Participant and Trading Participant (in relation to the Broker Pre-matched Trade) for that Pre-matched Trade or Broker Pre-matched Trade (as applicable).
- (d) Where a Custom Delivery Period applies to a Transaction:
- (i) notwithstanding the Delivery Period specified in the applicable Product Specification, the Delivery Period for the Transaction will be from the start date to the end date (inclusive) as specified by the Trading Participant or Broker Participant at the time of submitting the Pre-matched Trade or Broker Pre-matched Trade (as applicable); and
 - (ii) all other terms of the Transaction will be determined in accordance with clause 13.2 for a Pre-matched Trade and clause 13.3 for a Broker Pre-matched Trade and in the relevant Product Specification for that Transaction.



Custom delivery periods permitted

Schedule #	Custom Delivery Period
Schedule 9: Daily Gas (Moomba)	<p>Permitted.</p> <p>A Trading Participant or Broker Participant may specify a Custom Delivery Period (see clause 13.8). The Custom Delivery Period is for consecutive gas days from the start date (inclusive) to the end date (inclusive) as submitted and confirmed for the Pre-matched Trade or Broker Pre-matched Trade. The end date for the Custom Delivery Period must not be greater than 364 calendar days from the date on which the Trading Participant or Broker Participant (as applicable) confirm the details of the of the Pre-matched Trade or Broker Pre-matched Trade in the Trading System.</p>
Schedule 22: Daily Gas (Wallumbilla)	<p>Permitted.</p> <p>A Trading Participant or Broker Participant may specify a Custom Delivery Period (see clause 13.8). The Custom Delivery Period is for consecutive gas days from the start date (inclusive) to the end date (inclusive) as submitted and confirmed for the Pre-matched Trade or Broker Pre-matched Trade. The end date for the Custom Delivery Period must not be greater than 364 calendar days from the date on which the Trading Participant or Broker Participant (as applicable) confirm the details of the of the Pre-matched Trade or Broker Pre-matched Trade in the Trading System.</p>

Custom delivery periods not permitted

Schedule(s) #	Custom Delivery Period
Schedule 12: Weekly Gas (Moomba) Schedule 13: Monthly Gas (Moomba) Schedule 20: Monthly Gas (Wallumbilla) Schedule 21: Weekly Gas (Wallumbilla) Schedule 23: Day-Ahead Netted Gas (Wallumbilla) Schedule: 24: Day-Ahead Non-Netted Gas (Wallumbilla) Schedule: 25: On-the-day Gas (Wallumbilla) Schedule 26: Day-Ahead Netted Gas (Moomba) Schedule: 27: Day-Ahead Non-Netted Gas (Moomba) Schedule 28: On-the-day Gas (Moomba)	<p>Not permitted</p>



Extending monthly products out to 12 months

Schedule #	Trading Window
Schedule 13: Monthly Gas (Moomba)	<p>For a Delivery Period commencing on Gas Day D, Trading Hours on each Gas Day commencing 3 calendar months and 1 calendar day prior to the calendar month in which Gas Day D falls and ending on D-2 prior to the commencement of the calendar month in which Gas Day D falls.</p> <p>For a Pre-matched Trade where the Trading Participants have specified that Delivery Netting is not to apply, the Trading Window for Gas Day D are Trading Hours on each Gas Day commencing 6 12 calendar months and 1 calendar day prior to the calendar month in which Gas Day D falls and ending on D-2 prior to the commencement of the calendar month in which Gas Day D falls.</p>
Schedule 22: Monthly Gas (Wallumbilla)	<p>For a Delivery Period commencing on Gas Day D, Trading Hours on each Gas Day commencing 3 calendar months and 1 calendar day prior to the calendar month in which Gas Day D falls and ending on D-2 prior to the commencement of the calendar month in which Gas Day D falls.</p> <p>For a Pre-matched Trade where the Trading Participants have specified that Delivery Netting is not to apply, the Trading Window for Gas Day D are Trading Hours on each Gas Day commencing 6 12 calendar months and 1 calendar day prior to the calendar month in which Gas Day D falls and ending on D-2 prior to the commencement of the calendar month in which Gas Day D falls.</p>