

Notice to Gas Supply Hub Exchange Members of AEMO's decision to make amendments to the Gas Supply Hub Exchange Agreement to change the SWQP Product Definition

This Notice advises all Gas Supply Hub Exchange members and other interested stakeholders that AEMO has completed its consultation for the *Gas Supply Hub Proposed Exchange Agreement Amendment – SWQP Product Definition (IIR 007)*. AEMO proposed changes to the Exchange Agreement to remove the In-Pipe Trade Point from the South West Queensland Pipeline (SWQP) product.

Taking into account the assessment provided in the Impact and Implementation Report (IIR), and comments received on the proposed Exchange Agreement amendments, AEMO has decided to make the proposed amendments to the Exchange Agreement, effective from 1 June 2016.

The changes will be incorporated in version 6.0 of the Exchange Agreement by removing the In Pipe Trade Point delivery point from the list of delivery points in the Product Specifications in schedule 3, 4, 5, 6 and 7 (as presented in Attachment C).

AEMO received one submission 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.

In response to the submission, and to be consistent with the intent of the change outlined in IIR 007, the Exchange Agreement drafting has been amended (as presented in Attachment B) to allow trading participants to exclude an off-market transaction from the delivery netting process and to specify the SWQP In-Pipe Trade Point as the delivery point.

As required by the Gas Supply Exchange Agreement clause 3.3(d) (iv), AEMO informs Participants that version 6.0 of the Gas Supply Exchange Agreement will be effective from 1 June 2016.

Notice Date: 11 May 2016

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

Organisation	Summary of comment	AEMO's Response
Origin	Compelling rationale for the proposal has not been made.	<p>The proposal to remove the SWQP IPT was prepared by AEMO in response to concern raised by trading participants operating at Wallumbilla.</p> <p>The concern (as outlined to members at the February and March 2016 meetings of the GSHRG) is that the delivery cost for a buyer operating at Wallumbilla is significantly higher for the SWQP IPT compared to the other Wallumbilla-based delivery points (Wallumbilla Notional Point and the Fairview delivery point) of the SWQP product. It is AEMO's understanding that since the SWQP was augmented to allow gas flow in a westerly direction towards Wallumbilla, that a buyer receipting gas at the SWQP IPT may be required to pay a Western haul transportation charge to the facility operator to transfer their purchased gas to Wallumbilla. This is an issue for the trading of the SWQP product through the exchange as the seller and the delivery location (and hence the cost of delivery) are not known to the buyer until after a transaction has been formed.</p> <p>The uncertainty in the cost of delivery affects the participation of a potential buyer of gas that operates at Wallumbilla:</p> <ul style="list-style-type: none"> • The uncertainty in cost, and ability to transfer gas to Wallumbilla, is likely to reduce participation in the SWQP product by potential buyers. • Potential buyers of gas operating at Wallumbilla (that do participate) are likely to discount their order price by the price they would be charged for Western haul transportation. <p>The discounting of order prices makes it less likely that transactions can be formed in the SWQP product (i.e. reducing liquidity) and is likely to reduce the revenue available to sellers of the SWQP product.</p>

		<p>AEMO believes the proposed change will provide greater certainty of delivery costs for buyers and, in doing so, increase their participation in the trading of the SWQP product.</p>
	<p>Potential implications of change (including costs and benefits foregone) have not been adequately assessed.</p>	<p>AEMO has endeavoured to consult and facilitate feedback from members on the potential implications of the proposal. AEMO included the proposal as a discussion topic at the February, March and April meetings of the GSHRG. Concerns raised by industry during the GSHRG consultation were:</p> <ul style="list-style-type: none"> • Rationale for the change is not clear (see item above) • Removal of the SWQP IPT will reduce flexibility for sellers (see item below) • That the Wallumbilla Notional Point (WNP) is not as firm as the IPT. <p><i>In response, AEMO noted that the WNP (which is currently a commonly used delivery point) and the IPT are title transfer services and that AEMO is not aware of any issues affecting the firmness of the WNP service.</i></p> <ul style="list-style-type: none"> • More title transfer (delivery) errors at the WNP than the SWQP IPT <p><i>In response, AEMO noted that it understands the same system is used by shippers to transfer title at the SWQP IPT and WNP points.</i></p> <p>Further assessment by AEMO has identified additional risks to Wallumbilla buyers which serves to strengthen the case to make the proposed change.</p> <p>In addition to the western haul transportation charge, a buyer of gas operating at Wallumbilla may have difficulty arranging transport to Wallumbilla at short notice if it does not have firm transportation rights to Wallumbilla. If the buyer is not able to transport gas to Wallumbilla then they may fail to deliver on any associated Wallumbilla transactions and they may face an imbalance charge on the SWQP. AEMO considers that this risk is more controllable, and hence more efficiently managed, by the seller ahead of making a transaction (for example, by choosing to use a Moomba product when selling gas produced at Moomba).</p>

	<p>Concerned that the proposal will reduce flexibility for sellers. Concern also raised that potential liquidity of Moomba may not be sufficient to offset the reduced flexibility for sellers.</p>	<p>AEMO understands that the flexibility referred to in the submission is the ability for a seller to use the SWQP IPT to sell gas produced at Moomba or Wallumbilla (or stored in linepack) to meet the delivery obligations of a Wallumbilla transaction (with no difference in the delivery cost to the seller). The SWQP IPT allows the seller the ability to enter into a transaction ahead of the gas day with the flexibility to choose whether to meet the delivery obligations of the transaction with gas produced at Wallumbilla or Moomba (or from gas stored in linepack) just prior to the gas delivery day.</p> <p>AEMO acknowledges that the proposal would change the commercial dynamics for sellers of the SWQP product that have the option of meeting their delivery obligations with gas that is not located at Wallumbilla. Under the proposal a trading participant could continue to use gas that is not located at Wallumbilla to meet the delivery obligations of SWQP transactions. However, the seller would be responsible for the transportation of that gas to Wallumbilla.</p> <p>To help address concerns about the reduced flexibility for sellers, AEMO has amended the proposed Exchange Agreement drafting (see attachment B) to ensure that the SWQP IPT delivery point can continue to be used by traders when registering an off-market deal. In the case of an off-market transaction the buyer is aware of the delivery point and associated delivery costs prior to entering into the transaction (which is not the case for buyers when a transaction is formed on the exchange).</p> <p>Allowing traders the ability to use the SWQP product to sell gas produced at Moomba (with the transportation paid for by the buyer) is likely to reduce interest in the Moomba products making it difficult to facilitate liquidity in the Moomba products.</p>
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Attachment B: Revision to Proposed Exchange Agreement Amendments

Documentation Changes

Blue represents drafting presented in the IIR that has been amended.

1. Flexibility to designate a delivery point for an off-market deal

13.2 Pre-matched Trades

(a2) Where Trading System functionality allows, a Trading Participant may specify the name and details of the alternate delivery point when submitting the details of a Pre-matched Trade and confirmation of that Pre-matched Trade by a second Trading Participant constitutes agreement between the Trading Participants to that Delivery Point for that Pre-matched Trade.

2. SWQP Trading Location

No change is made to the SWQP Trading Location definition so that the SWQP In Pipe Trade Point can be used by trading participants when they agree to and register an off-market deal.

Schedule 2: Trading Locations and Delivery Points

2 Trading Locations and Delivery Points

Trading Location	Delivery Point	Delivery Point Definition
SWQP Trading Location (Wallumbilla transfer points on the SWQP)	Fairview	Interconnection of the SWQP and the Fairview Pipeline.
	Wallumbilla Notional Point	A notional point within the SWQP Wallumbilla Compound, nominated by the Gas Transporter, from which gas may be directed to or from the SWQP.
	SWQP In Pipe Trade Point	Any virtual point within the SWQP nominated by the Gas Transporter at which transfers of title in gas can be effected.

Attachment C: Amendments to the Exchange Agreement as set out in IIR 007

Documentation Changes

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

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The Product Specifications in the schedules listed below will be amended:

- Schedule 3: Product Specifications for Daily Gas (Wallumbilla)
- Schedule 4: Product Specifications for Day Ahead Gas (Wallumbilla)
- Schedule 5: Product Specifications for Balance-of-Day Gas (Wallumbilla)
- Schedule 6: Product Specifications for Weekly Gas (Wallumbilla)
- Schedule 7: Product Specifications for Monthly Gas (Wallumbilla)

Each Product Specification for SWQP Trading Locations will be amended as shown below:

Delivery Point	The SWQP Trading Location, at the Delivery Point specified in the Order, being one of the following: <ul style="list-style-type: none"> - Fairview - Wallumbilla Notional Point - SWQP In Pipe Trade Point as defined in schedule 2 for the SWQP Trading Location.
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