



3 July 2018

Information Paper: Capacity trading reform package legal and regulatory instruments

The COAG Energy Council has approved the legal and regulatory instruments that will implement the capacity trading reform package.

Background

The capacity trading reform package was originally recommended by the Australian Energy Market Commission (AEMC) in its *Eastern Australian Wholesale Gas Market and Pipelines Framework Review* and endorsed by the COAG Energy Council (Energy Council) at its August 2016 meeting. In the latter half of 2016 the Gas Market Reform Group (GMRG) was accorded responsibility for leading the design and development of this reform package.

The reforms, which apply to transmission pipelines and compression facilities operating under the contract carriage model¹ (jointly referred to as ‘transportation facilities’), include the implementation of:

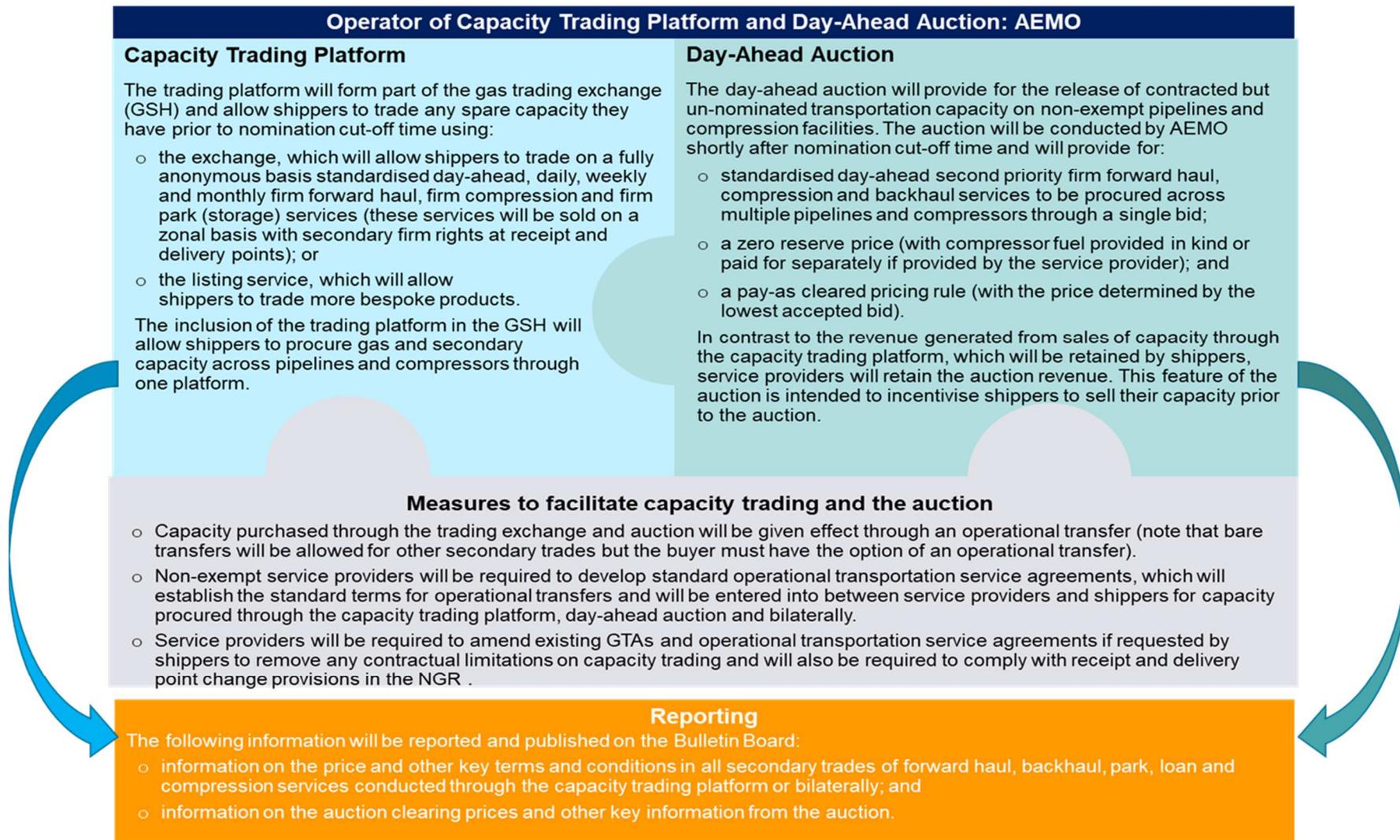
1. A capacity trading platform that will form part of the gas trading exchange (Gas Supply Hub (GSH)) and provide for exchange-based trading of commonly traded transportation products and a listing service for more bespoke products.
2. A day-ahead auction of contracted but un-nominated capacity (CBU), which will be conducted each day on non-exempt transportation facilities shortly after nomination cut-off time and subject to a reserve price of zero.
3. A range of measures to facilitate capacity trading and the auction, including the development of standard operational transportation service agreements (standard OTSAs) that will establish the standard contract terms between service providers and shippers for capacity procured through the capacity trading platform and day-ahead auction.
4. A reporting framework for secondary capacity trades and a number of other transparency measures that are designed to facilitate capacity trading and the auction.
5. A standard market timetable that provides for:
 - a common gas day start time of 6 am (AEST) across the east coast (and Northern Territory once connected to the east coast) that will apply to all production, pipeline, compression and storage facilities and in the facilitated markets;
 - a common nomination cut-off time of 3 pm (AEST) for transportation facilities that will be subject to the capacity trading reforms; and
 - a common auction service nomination cut-off time of 6:45 pm (AEST) for transportation facilities that will be subject to the day-ahead auction.

Figure 1 provides further detail on the key elements of these reforms.

¹ The reforms do not apply to the Declared Transmission System (DTS) in Victoria, which operates under the market carriage model.



Figure 1: Key elements of the reform package





Work on the design of the reform package commenced in early 2017. Following an extensive consultation process, which included a large number of meetings with industry-based project teams, the GMRG provided its final recommendations to the Energy Council on:²

- the proposal to accord the Australian Energy Market Operator (AEMO) responsibility for operating the capacity trading platform and auction, which was approved by the Energy Council at its 14 July 2017 meeting;
- the proposed design of the trading platform, the measures required to facilitate capacity trading and the auction, the reporting framework for secondary trades and the adoption of a standard market timetable, which were approved by the Energy Council at its 24 November 2017 meeting; and
- the proposed design of the day-ahead auction, which was approved by the Energy Council out-of-session on 3 January 2018.

The Energy Council also agreed at its 24 November 2017 meeting that:

- the capacity trading reform package should be implemented by **1 March 2019**; and
- the harmonisation of gas day start times and nomination cut-off times should occur by **1 October 2019**.

Application of the reforms

The Energy Council has agreed that the reform package will initially apply in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria (outside the Declared Transmission System (DTS)). The Energy Council has also agreed, at the request of the Northern Territory Government, to:

- implement a derogation that will delay the application of the day-ahead auction to transportation facilities located wholly or partly in the NT; and
- apply all other aspects of the capacity trading reform package in the NT once the Northern Gas Pipeline (NGP) is commissioned.

Further detail on the derogation can be found in the Senior Committee of Officials' Bulletin dated 3 July 2018.

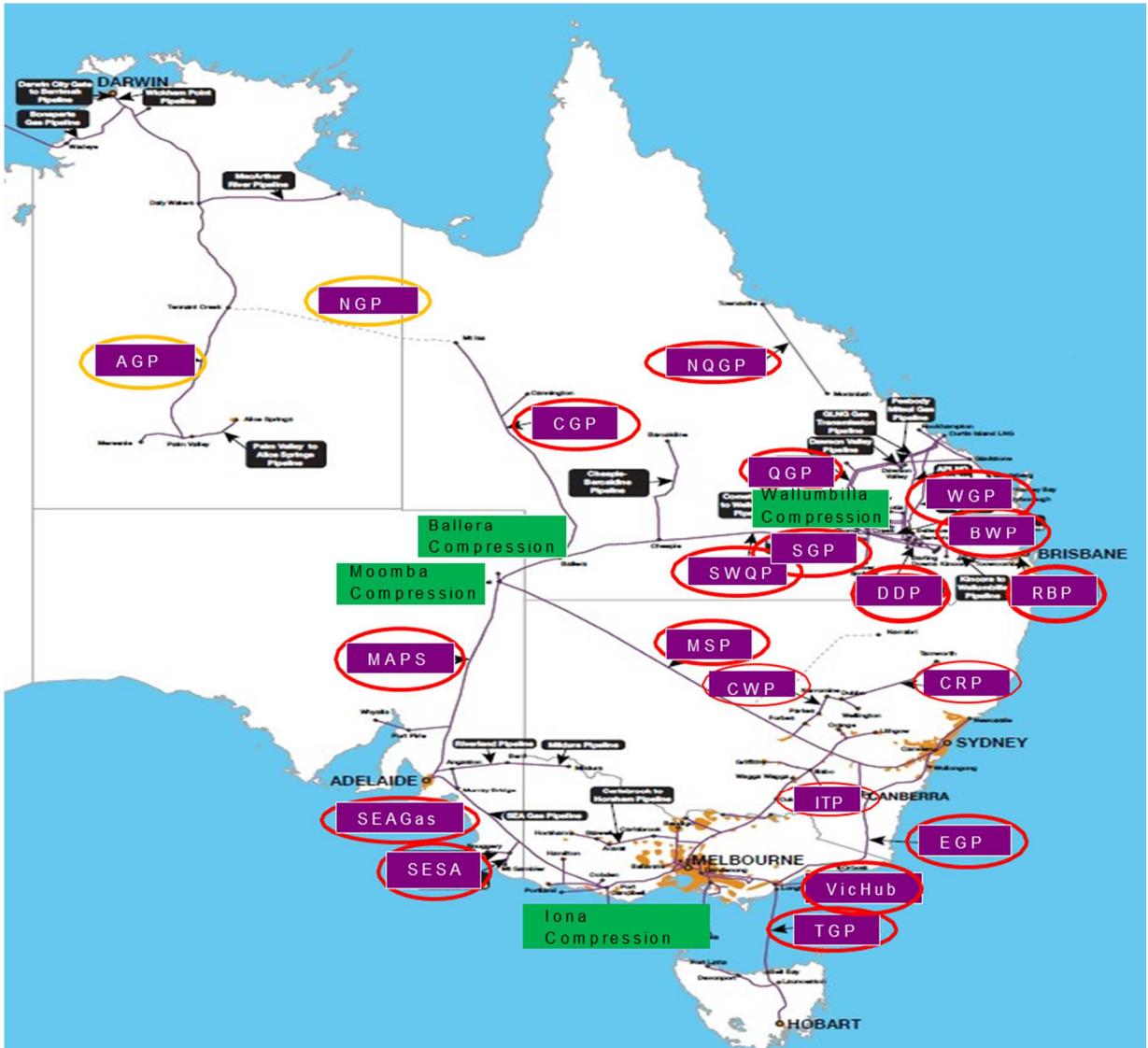
In relation to Western Australia (WA), the GMRG understands that the Energy Council intends to direct the AEMC to conduct a separate review in 2020 (at the earliest) into whether the reforms should apply in that state.

The map below provides an indication of the coverage of the capacity trading reforms and identifies those facilities located wholly or partly in the NT that, by virtue of the operation of the derogation, will not be subject to the auction until the derogation expires (see facilities circled in yellow). Note that the map excludes those transportation facilities that will be

² GMRG, Final Recommendations on the Operation and Administration of the Transportation Capacity Trading Platform and Day-Ahead Auction, June 2017. GMRG, Final Recommendations on the Capacity Trading Reform Package (Standardisation, capacity trading platform and reporting framework for secondary trades), November 2017. GMRG, Final Recommendations on the Design of the Day-Ahead Auction of Contracted but Un-Nominated Capacity, December 2017.

automatically exempt from the reforms and those that are likely to obtain a full or conditional exemption from the reforms (see Table A.1 for more detail on exemptions).

Figure 2: Indicative coverage of the capacity trading reforms (excl. harmonisation)



Map source: AEMC with additions made by the GMRG.

Legal and regulatory instruments

The legal and regulatory instruments required to give effect to the reform package comprise:

- amendments to the National Gas Law (NGL), the regulations made under the NGL (Regulations) and the National Gas Rules (NGR or Rules); and
- the introduction of a new regulatory instrument, the Operational Transportation Service Code (Code).

On 19 March 2018, the GMRG released the draft legal and regulatory instruments for consultation and invited stakeholders to provide feedback by Friday 27 April 2018 on these instruments and on a number of proposed refinements to the design of the reform



package. In total, the GMRG received 24 submissions. These submissions were received from organisations with interests across the gas supply chain and a number of consumer and user representatives.

Having regard to the feedback provided by these stakeholders, the overarching objectives of the reforms, the rule making test set out in section 291 of the NGL,³ and the Energy Council's *Australian Gas Market Vision*,⁴ the GMRG developed the final legal and regulatory instruments for the Energy Council's consideration and approval. These instruments, which were approved out-of-session by the Energy Council on 29 June 2018, reflect:

- a number of refinements to the design of the reform package that were identified in the 19 March 2018 consultation paper;⁵ and
- a range of other amendments to specific provisions in the NGL, Regulations, NGR and Code, that have been made to provide market participants with:
 - greater clarity about their rights and obligations under the various elements of the capacity trading reform package; and
 - greater confidence in the capacity trading platform and day-ahead auction by providing for enhanced transparency, increased stakeholder consultation and additional oversight by the AER.

These refinements and amendments are reflected in the final design tables in Appendix A.

Next steps

The changes to the NGL that are required to give effect to the reform package are expected to be tabled in the South Australian Parliament in the coming weeks. Following the proclamation of these changes, the required amendments to the Regulations and NGR, and the initial Code will be made. This is expected to occur in late October or early November.

Once these legal and regulatory instruments are made, AEMO will make and amend a number of subordinate instruments that it is responsible for and the Australian Energy Regulator (AER) will publish the guidelines it is responsible for making.

Further detail on the next steps and the key dates is provided in:

- Table 1, which sets out the expected timings associated with the legal and regulatory instruments and subordinate instruments;
- Table 2, which sets out the timings associated with the various obligations that service providers and other market participants will have in relation to facilities located in the

³ The rule making test in section 291 of the NGL sets out the matters the AEMC is to consider when exercising its rule making functions. In short, this test states that the AEMC: may only make a rule if it is satisfied it will, or is likely to, contribute to the achievement of the NGO; and may give such weight to any aspect of the NGO as it considers appropriate, having regard to any relevant Council statement of policy principles.

⁴ COAG Energy Council, *Australian Gas Market Vision*, December 2014.

⁵ These refinements relate to: the exemption framework, the AER's role in approving Code amendments, the approach used to overcome contractual limitations on capacity trading, the governance arrangements for zones; the contract path model to be used in the auction; who should be responsible for determining the method for calculating auction quantities; the scope of grandfathered rights; the gas day harmonisation transitional arrangements; and the reporting obligations of allocation agents.



Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria (outside the DTS); and

- Table 3, which sets out the timings associated with the various obligations that service providers and other market participants will have in relation to facilities wholly or partly located in the NT.

Note these tables have been developed on the basis that amendments to the NGL, Regulations and NGR, and the initial Code will be made on or before 1 December 2018.⁶

Table 1: Key dates for the implementation of legal and regulatory instruments

Date	Responsibility	Process
July – November 2018	SA Minister	Amendments to the NGL progressed through SA Parliament and once NGL changes are proclaimed, the amendments to the Regulations and the NGR, and the initial Code will be made.
August – September 2018	AEMO	Formal consultation on the Capacity Transfer and Auction Procedures, the Auction Agreement, changes to the Exchange Agreement and some amendments to the Bulletin Board (BB) Procedures.
October – November 2018	AEMO	Formal consultation on amendments to the Short Term Trading Market (STTM) and Declared Wholesale Gas Market (DWGM) Procedures and the remaining amendments to the BB Procedures.
On or before 1 December 2018	AEMO	AEMO to make the Capacity Transfer and Auction Procedures and Auction Agreement and amend the Exchange Agreement and other AEMO-made Procedures. AEMO to make determination on the zones to be used for the capacity trading platform and day-ahead auction and publish the transportation service point register.
On or before 1 December 2018	AER	AER to publish initial guidelines on the nomination and scheduling records to be kept by auction facility operators, and the renomination records to be kept by users of auction facilities.
1 March 2019	AEMO and service providers	Capacity trading platform and day-ahead auction commence.
On or before 1 April 2019	AEMO	AEMO to publish information on the arrangements for transition to the standard gas day in each facilitated gas market and update relevant AEMO-made Procedures.
1 October 2019	AEMO and facility operators	Standard market timetable commences.
1 March 2020	AER	AER to complete its review of service providers' standard OTSAs and standardisation costs and charges.
July 2020	AEMC	AEMC to complete its second biennial review into liquidity in wholesale gas and pipeline trading markets.

⁶ If this does not occur, then the commencement of the capacity trading platform and the auction and the other obligations set out in these tables will be deferred in accordance with the timelines specified in the transitional rules.



Table 2: Key timings for existing transportation facilities and allocation agents (excluding facilities located wholly or partly in the NT)

Date	Activity
Rules start date on or before 1 December 2018	A transportation facility commissioned on or before this date is an “existing transportation facility” for the purposes of the transitional arrangements in the NGR.
	A system injection point or system withdrawal point in the DTS that meets the relevant criteria in the NGR becomes an “existing BB allocation point” and the agent responsible for the point becomes an “existing BB allocation agent” for the purposes of the transitional arrangements in the NGR.
	Shippers can seek amendments to facility agreements if required to enable capacity trading to occur and can also use the new framework in the NGR to request changes to receipt and delivery points.
Rules start date + 20 business days	Last date for the transportation service provider for an existing transportation facility (if not the subject of an automatic exemption or a transitional exemption granted by the AER) to apply to AEMO to register as a service provider and to register the transportation facility. ⁷
	Last date for existing BB allocation agents for system injection and withdrawal points in the DTS that are existing BB allocation points to apply to AEMO to register as the allocation agent and to register the existing BB allocation point.
Registration date for existing transportation facilities	An allocation point on a registered transportation facility becomes a non-DTS “existing BB allocation point” and the agent responsible for the point becomes an “existing BB allocation agent” for the purposes of the transitional arrangements in the NGR.
Registration date for existing transportation facilities + 20 business days	Last date for existing BB allocation agents for non-DTS “existing BB allocation points” to apply to AEMO to register as the allocation agent (if not already registered) and to register the “existing BB allocation points”.
Rules start date + 40 business days	Last date for non-exempt transportation service providers to publish a standard OTSA and a schedule of standardisation charges. If a shipper makes a request to enter into the standard OTSA, service providers have 20 business days (or longer if agreed to by the parties) to prepare and offer to enter into the agreement.
16 January 2019	Date by which auction facility operators must notify the AER that they intend to classify certain transportation services as ‘transitional firm’ (grandfathered) services if the facility operator wishes the classification to apply from the commencement of the auction (see Table A.3 for more detail). ⁸
1 February 2019	Non-exempt compression facilities commence reporting a range of operational information to AEMO for publication on the BB.
1 March 2019	First day of the day-ahead auction (excluding NT transportation facilities).
	First day on which non-exempt transportation service providers are required to give effect to operational transfers, service continuity arrangements for trades conducted on the capacity trading platform, the results of the day-ahead auction and to comply with transaction support arrangements.
	First day from which auction facility operators must keep and maintain nomination and scheduling records and users of auction facilities must keep records of material changes in renominations in accordance with AER guidelines.
	First day from which shippers must comply with secondary capacity trading reporting obligations and auction facility operators must comply with auction reporting obligations.
2 March 2019	First day for use of auctioned capacity and capacity purchased through the capacity trading platform.
30 June 2019	Facility operator for a natural gas facility that provides services to third parties must publish information about its arrangements for the transition to the standard timetable.
1 October 2019	Standard market timetable comes into effect.
1 March 2021	Grandfathering of rights for the purposes of the capacity auction ceases at 6:00 am.

⁷ AEMO may, on the application of a service provider, register more than one facility as a single facility for the purposes of the reforms or register a part (or parts) of a transportation facility as separate facilities.

⁸ Note that if auction facility operators notify the AER after this date, they will not be able to treat the services as ‘transitional firm’ services for 30 business days after the notification.



Table 3: Key timings for NT transportation facilities if the NGP is commissioned after the commencement of the rules

Date	Activity
Before NGP commissioning	NT transportation facilities that will require an exemption after the NGP is commissioned in order to remain exempt may apply to the AER for an exemption. ⁹
	Transportation service providers located wholly or partly in the NT that are unable to obtain an exemption may apply to AEMO to register as a facility operator (if not already registered) and to register the transportation facility.
NGP commissioned (Commissioning date)	The automatic exemption for NT transportation facilities expires and NT transportation facilities fall within the scope of the operation of the capacity trading reform package (other than the day-ahead auction).
	Shippers on non-exempt NT transportation facilities can seek amendments to facility agreements if required to enable capacity trading to occur and can also use the new framework in the NGR to request changes to receipt and delivery points.
Commissioning date + 20 business days	Last date for transportation service providers for non-exempt transportation facilities located wholly or partly in the NT to apply to AEMO to register as a facility operator (if not already registered) and to register the non-exempt transportation facility.
Commissioning date + 40 business days	Last date for service providers for a non-exempt NT transportation facility to publish a standard OTSA and a schedule of standardisation charges. If a shipper makes a request to enter into the standard OTSA, the service provider will have 20 business days (or longer if agreed to by the parties) to prepare and offer to enter into the agreement.
Commissioning date + 90 days	“NT Application Date” for the BB under Part 18 of the NGR.
	An allocation point on a registered transportation facility in the NT becomes a “BB allocation point” and the agent responsible for the point becomes a “BB allocation agent” for the purposes of the transitional arrangements in the NGR (if it is not already).
Commissioning date + 90 days + 20 business days	Last date for NT facility operators to register with AEMO and register their facilities under Part 18 of the NGR (unless already registered or exempt from doing so).
	Last date for BB allocation agents in the NT that meet the relevant criteria in the NGR to apply to AEMO to register in that role (if not already registered) and to apply to AEMO to register the BB allocation point.
Commissioning date + 120 business days	First day on which non-exempt NT transportation service providers are required to give effect to operational transfers, service continuity arrangements for trades conducted on the capacity trading platform and to comply with transaction support arrangements.
	First day from which shippers using non-exempt NT transportation facilities must comply with secondary capacity trading reporting obligations.
Expiration of derogation	Day-ahead auction applies to non-exempt NT transportation facilities (see. Senior Committee of Officials’ Bulletin dated 3 July 2018 for more detail on the derogation).

⁹ See Table A.1 for information on the exemptions framework.



Appendix A Final design of the capacity trading reform package

Table A.1: Final design of the measures to facilitate capacity trading and the auction

Design Element	Detail
Exemptions	
Exemptions	<p>The exemptions framework for the capacity trading reform package provide for:</p> <ul style="list-style-type: none"> ▪ Exemptions from all aspects of the capacity trading reform package (excluding the secondary capacity reporting framework)¹⁰ to be: <ul style="list-style-type: none"> – automatically available to distribution pipelines, a transportation facility that forms part of the DTS and compression facilities that are not designated in the Regulations¹¹ or are not stand-alone facilities;¹² and – available on application to the AER, to transportation facilities that are not providing third party access. ▪ Exemptions from the auction and the obligation to publish a standard OTSA to be available on application to the AER, to transportation facilities with a nameplate capacity less than 10 TJ/day or that are servicing a single transportation user (shipper).¹³ Note that the exemption from the obligation to publish a standard OTSA does not extend to the obligation to prepare and offer to enter into a standard OTSA,¹⁴ or a number of other measures to facilitate capacity trading,¹⁵ so these facilities are referred to as 'conditionally exempt facilities'. Note also that if a prospective user enters into an OTSA with the service provider of a single user facility then the AER may revoke the exemption.¹⁶
Registration of service providers and facilities	
Registration requirements	<p>If a transportation facility is unable to obtain an exemption, the service provider must register as a facility operator and register the facility.</p> <p>If there is more than one service provider for the facility, then one of the service providers must be appointed as the 'responsible' service provider. The responsible service provider must register as the facility operator and be responsible for performing the obligations and exercising the rights of a facility operator under the NGR and the Capacity Transfer and Auction Procedures. While the registration remains in effect, the facility's other service providers must procure and where necessary facilitate, the compliance of the facility operator with its obligations under the NGR and Capacity Transfer and Auction Procedures and vice versa.</p>

¹⁰ The secondary capacity trading reporting obligations apply to trading parties rather than facilities. The exemptions set out here do not therefore apply to this reporting framework.

¹¹ The designated compression facilities are the Wallumbilla and Moomba facilities owned by APA, the Iona facility owned by Lochard and the Ballera facility owned by Santos.

¹² Note that an automatic exemption is also available to a transportation facility located in the NT until the first transmission pipeline capable of transporting natural gas between the NT and a location in Queensland, New South Wales or South Australia, is commissioned.

¹³ Note the term 'user' and 'shipper' are used interchangeably in these tables.

¹⁴ If a prospective user makes an eligible request to enter into a standard OTSA, the service provider must prepare and offer to enter into such an agreement within 60 business days. An eligible request is a request made by a prospective secondary shipper who meets the eligibility criteria set out in the NGR in order to be offered a standard OTSA and who intends to enter into the agreement and use its reasonable endeavours to procure transportation capacity on the transportation facility.

¹⁵ Service providers of these facilities will, for example, also be required by the NGR to: comply with the standardisation cost principles; give effect to operational transfers; comply with the NGR provisions; provide users with an amending facility agreement if requested to do so by the user and comply with the use of additional pipeline service point provisions.

¹⁶ Given the costs a service provider could incur once the exemption is revoked, the rules provide the AER with the discretion not to revoke the exemption if, for example, the shipper only enters into a relatively short-term OTSA (e.g. a three to six-month contract).



Design Element	Detail
Operational Transfer	
Contracts to be standardised	<p>An operational transfer is to be used to give effect to capacity purchased through the capacity trading platform, the day-ahead auction and, where the buyer elects to use an operational transfer, bilateral trades.</p> <p>A bare transfer can be used in bilateral trades, subject to the seller offering the buyer the option of an operational transfer if requested to do so.</p> <p>The contractual arrangements for operational transfers will be set out in an OTSA, which may take the form of a stand-alone agreement (including the standard OTSA) or form part of a shipper's primary facility agreement.</p>
Standard OTSAs	
Service provider obligations	Non-exempt service providers will be required to prepare and publish ¹⁷ a standard OTSA for each facility they operate and, subject to some limitations, these service providers will also be required to offer to enter into such an agreement if requested to do so by a prospective user.
Contents of a standard OTSA	The standard OTSA must incorporate the standard terms in the Code and facility specific terms applicable to the facility. While service providers will have some discretion in relation to the facility specific terms, the terms must be consistent with the relevant provisions in the NGR (including the auction service priority principles) and give effect to facility specific requirements in the Code.
Service provider costs	<p>Standardisation costs: Service providers will have a reasonable opportunity to recover the incremental costs incurred exclusively in establishing and maintaining standard OTSAs and the systems and processes required to comply with obligations in the NGR and Capacity Transfer and Auction Procedures, subject to the caveat that the costs are only recovered once, and auction revenue is treated as a contribution to cost recovery.</p> <p>Standardisation charges: The charges levied by service providers must: in so far as practicable reflect the outcomes of a workably competitive market; provide for the allocation of costs among users in a reasonable manner; and provide for the recovery of costs over time in a manner that promotes efficient trade in, and use of, capacity.</p>
Compliance monitoring for standard OTSAs and standardisation costs/charges	<p>The AER will be required to conduct a review of the compliance of all non-exempt service providers' standard OTSAs and standardisation costs/charges with the NGR and Code within the first 12 months of the capacity trading platform and auction being implemented.</p> <p>The AER will also have an ongoing power to monitor the compliance of standard OTSAs and the standardisation charges specified in these agreements and may review those agreements or charges either of its own volition or in response to a request by a user. If an OTSA or the charges are found not to comply with the Code or NGR, the AER may require amendments to be made.</p>
Operational Transportation Service Code (Code)	<p>The standard OTSA prepared by a service provider must comply with the relevant provisions in the NGR and the Code. The Code will contain:</p> <ul style="list-style-type: none"> ▪ a description of the standard operational transportation services and the terms and conditions for the provision and use of those services; ▪ a description of, and requirements for, facility specific terms; and ▪ a form of agreement for execution by the parties, which will automatically incorporate any changes that are made to the standard terms and a facility's facility specific terms.

¹⁷ Note the obligation to publish for a service provider means to make publicly available on the service provider's website. The obligation to publish a standard OTSA does not extend to facilities exempted from that obligation and the auction by the AER on the basis that they have a nameplate rating less than 10 TJ/day or service a single user.



Design Element	Detail
	<p>These elements of the Code are largely unchanged from the version that was released for public consultation, although some minor amendments have been made to enable the Code to apply to facilities that are subject to a conditional exemption and to address the issues that stakeholders raised about the following aspects of the standard terms and facility specific terms:</p> <ul style="list-style-type: none"> ▪ the standard terms have been amended to: specify the time at which shippers must nominate the service points they intend to use (i.e. at the time of transfer or trade); require service providers to inform a shipper that has no MDQ of any unplanned maintenance; and to increase the cap on a shipper's liability to \$20m where an event (or connected series of events) causes physical damage to the facility; and ▪ the facility specific terms have been amended to: provide greater clarity about the intended operation of the compression operation and service provisions; enable service providers to deal with renomination requests at set intervals (where consistent with existing practice); and specify the information to be provided on pipeline receipt and delivery points, park service points and compressors.
Governance of the Code	<p>The Code will be subject to a hybrid governance model, which will involve the following:</p> <ul style="list-style-type: none"> ▪ An industry Panel (the OTS Code Panel), comprising a member from AEMO (who will chair the panel), two service providers and two shippers (one of which must be a large user of gas). The OTS Code Panel will consider proposals to amend the Code, having regard to stakeholder feedback, and provide its recommendations to the AER on the proposed amendments. ▪ Amendments recommended by the OTS Code Panel will only take effect if approved by the AER. In deciding whether to approve the amendments, the AER must consider the Code objective¹⁸ and a number of other principles and matters specified in the NGR. The AER will have the power to approve, reject and remit the proposed change. It will also have the power to amend the Code on its own initiative. However, before doing so, the AER must request advice from the OTS Code Panel and AEMO, and consult with interested parties.¹⁹ <p>The AER and Code Panel will also be able to seek the advice of consumer and industry representative bodies where it is appropriate to do so.</p>
Measures to overcome contractual limitations on capacity trading	
Amending facility agreements	<p>To ensure that contractual limitations in facility agreements (primary facility agreements and OTSAs) do not act as a barrier to trade, service providers will be required, within 30 business days of a request (or 45 business days during the transitional period leading up to the commencement of the auction and capacity trading platform), to provide users an amending facility agreement that:</p> <ul style="list-style-type: none"> ▪ enables the user to sell the capacity the subject of the agreement for use under an OTSA; and ▪ gives effect to a number of principles in the NGR that are designed to facilitate capacity trading and the day-ahead auction. <p>Service providers and users will be required to negotiate any amendments in good faith, but if a dispute about the terms of the amending agreement arises, the relevant contractual provisions for dispute resolution in the facility agreement applies or, in the event the contractual provisions do not apply, either party may refer the matter for determination by an expert.</p>
Receipt and delivery point changes	<p>Provisions in the NGR will provide shippers and service providers with greater guidance on:</p> <ul style="list-style-type: none"> ▪ the rights shippers have to seek a change to their receipt or delivery points and the circumstances in which consent can be withheld; ▪ the timeframes within which service providers must respond to a request to change a receipt or delivery point; and ▪ the charges that service providers can levy for, or conditions they can impose on, receipt or delivery point changes, which must be reasonable.

¹⁸ The Code objective is to provide for access to operational transportation services on reasonable terms, which is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market.

¹⁹ Consultation will be required unless the modification is non-material or urgently necessary to ensure the proper operation of the auction or the capacity trading platform, or the safe and reliable operation of one or more facilities.



Design Element	Detail
Transaction support arrangements	
Transaction support arrangements	<p>To facilitate trade conducted through the capacity trading platform and day-ahead auction, non-exempt service providers will be required to comply with the transaction support arrangements in the Capacity Transfer and Auction Procedures and, subject to some limitations, give effect to operational transfers. Amongst other things, the transaction support arrangements will set out:</p> <ul style="list-style-type: none"> ▪ the process, form and timing of the exchanges of information between AEMO and service providers and the validation process; ▪ the contingency arrangements that will apply if there is a failure of systems or processes or default in the performance of obligations; ▪ the circumstances in which service providers can decline to give effect to a transfer; ▪ the methodology to be used to determine the amount to be paid to service providers if a primary facility agreement is terminated and an exchange-based trade is still on foot, which will be determined by reference to the price (or prices) at which the primary shipper sold the capacity through the exchange; and ▪ other obligations service providers will have, including: arrangements for access to and use of the systems established by AEMO; the provision of contract reference information and information about service points, nominations and curtailments; the information required and processes to be followed to give effect to trades on the exchange or through the day-ahead auction; and integration with other markets.
Specification of service points, pipeline segments and zones	
Service points	<p>Non-exempt service providers will be required to provide to AEMO and keep up to date a specification of each service point (e.g. receipt point, delivery point, notional point, in-pipe trading points) at or between which transportation services are provided and each park service point, in accordance with the Capacity Transfer and Auction Procedures. The specifications will be published in the transportation service point register that AEMO will be required to maintain.</p>
Determination of zones and pipeline segments	<p>AEMO will be responsible for determining the zones and pipeline segments that will be used in the capacity trading platform and the auction, following consultation with interested parties. The Capacity Transfer and Auction Procedures will set out the arrangements AEMO will use to consult on and determine the zones and pipeline segments, the information to be published in the consultation process (this will include information relating to the possible curtailment of capacity within a zone), the time frames and the confidentiality arrangements. The NGR will set out the principles AEMO is to employ when making a decision about zones and the obligations that non-exempt service providers will have to assist AEMO. Amongst other things, the principles for determining zones will allow AEMO to have regard to:</p> <ul style="list-style-type: none"> ▪ the impact of the proposed allocation of points on trade in auction and exchange products, including the impact on demand or liquidity; ▪ the possible curtailment of capacity transferred between points within a zone, over time or at particular times or in particular conditions; and ▪ the operational and technical characteristics of the pipeline. <p>Non-exempt service providers will also be required to provide AEMO with the information it reasonably requires for the assessment of the proposed zone and to undertake any analysis of proposed zones required by AEMO.</p> <p>Once the zones are established, AEMO will be required to publish information provided by service providers relating to curtailment of capacity transferred between service points in a zone, so that shippers can get a better understanding of the deliverability risks.</p>



Table A.2: Final design of the capacity trading platform

Design Element	Detail
Start date for trade on the capacity trading platform (see Table 3 for NT start dates)	<p>The obligation to give effect to trades concluded through capacity trading platform will commence on 1 March 2019 (or if the rules are made after 1 December 2018, then trade will commence 60 business days after the rules are made). Note that trading of capacity on the platform may commence before that date but only for products with a service term that starts after that date.</p> <p>If a transportation facility later becomes subject to the reforms (e.g. because it is commissioned after the trading platform commences or its exemption is revoked), then the service provider's obligation to give effect to trades carried out through the capacity trading platform will commence 120 business days after the date on which the facility becomes subject to the reforms.</p>
Operation of the capacity trading platform	<p>The capacity trading platform will be operated by AEMO and form part of the GSH. The capacity trading platform will provide for both:</p> <ul style="list-style-type: none"> ▪ Exchange-based trading of commonly traded transportation (pipeline and compression) products, which can be conducted through either: <ul style="list-style-type: none"> – the screen trade service, which allows anonymous bids or offers to be placed on standardised products that are automatically matched; or – the pre-matched trade service, which allows participants to bring a bilateral trade in one of the listed products to the exchange for settlement. <p>The screen trade service will operate on a fully anonymous basis (i.e. the names of counterparties will not be revealed pre or post-transaction), with AEMO informing the service provider of the trade and the service provider then confirming and giving effect to the trade. The process for validating trades will be set out in the transaction support arrangements that will form part of the Capacity Transfer and Auction Procedures.</p> ▪ A listing service that shippers can use to list other more bespoke products and imbalance trades. <p>Trades conducted through the exchange will use existing GSH settlement, prudential and reporting frameworks, which means participants will receive one settlement statement for all products and be able to aggregate prudential requirements across gas and secondary capacity products.</p>
Initial set of services to be listed on the exchange	<p>The initial set of standardised products to be sold on the exchange include:</p> <ul style="list-style-type: none"> ▪ firm forward haul services on transmission pipelines (if the pipeline is bi-directional,²⁰ services will be available in both directions); ▪ firm stand-alone compression services; and ▪ firm park (storage) services on transmission pipelines that offer this service. <p>These services will have a minimum contract size of 500 GJ/day and will be available as: a day-ahead product; a daily product (available on a 6-day rolling basis); a weekly product (available on a 4-week rolling basis); and a monthly product (available on a 3-month rolling basis).</p> <p>The terms and conditions on which the buyer can use these products will be set out in the service provider's standard OTSA (or other agreement containing the terms for use of the service), which, amongst other things, will specify the hourly flexibility and imbalance allowance the buyer will have and provide for a reasonable endeavours renomination right.</p>

²⁰ A pipeline will be classified as bi-directional if at any time the direction of the physical flow of gas on the pipeline (or part) is capable of being reversed under normal operating conditions and transportation facility users have transportation capacity for firm forward haul services in both directions (with a service time that includes that time).



Design Element	Detail
Contract path model	<p>Forward haul services will be traded using the zonal model and will have secondary firm rights at receipt and delivery points. Under the zonal model:</p> <ul style="list-style-type: none"> ▪ sellers will be able to sell point-to-point capacity on a zone-to-zone basis; and ▪ buyers will be able to acquire capacity on a zone-to-zone basis. <p>The secondary firm rights concept is required under the zonal model because the capacity that is sold by the seller may be released from a different receipt or delivery point in the zone to the point the buyer intends to use in that zone and the capacity of individual points within a zone will usually be lower than the zonal capacity. To deal with these limitations, while also recognising the firm rights that primary shippers have to use receipt and delivery points, the secondary firm rights concept allows secondary shippers to use any receipt or delivery points within a zone but their rights at those points are subordinate to primary shippers with firm rights at those points.</p> <p>At the time the trade is entered, or the transfer occurs, sellers will be required to notify AEMO of the receipt and delivery points they intend to release their capacity from and buyers will be required to notify AEMO of the points they intend to use. This information will be provided to the relevant service provider.</p>
Management of financial and delivery default risks	<p>There are two key risks that buyers using the exchange will be exposed to:</p> <ul style="list-style-type: none"> ▪ The seller's primary facility agreement is terminated or suspended by the service provider: <ul style="list-style-type: none"> – If the agreement is terminated, the service provider will be obliged to notify AEMO of the termination of the primary facility agreement and to honour the transaction for up to 14 days after the notification is received. If this occurs, the service provider will receive a price determined by reference to the price at which the seller sold the capacity through the GSH in return for doing so. – If the agreement is suspended, the service provider will be obliged to honour the trade for the term of the trade. In contrast to a termination, the service provider will not receive any payment for honouring the trade because it will be expected to continue recovering the charges from the seller under the terms of the primary facility agreement. ▪ The seller's facility agreement does not provide for the services that have been sold: In this case, the arrangements in the Capacity Transfer and Auction Procedures will give the seller a short period of time to rectify the position. If it cannot be rectified, the trade will be cancelled, and the buyer(s) compensated under the delivery failure arrangements in the Exchange Agreement. Because individual counterparties will not be known, if a trade is cancelled all secondary shippers' capacity would be pro-rated down. In addition to this measure, exchange members will be prohibited from short-selling transportation capacity. When coupled with the prudential controls in the GSH, these provisions should discourage any uncovered speculative trading.



Table A.3: Final design of the day-ahead auction

Design Element		Detail
Start date for the auction (see Table 3 for NT start dates)		The day-ahead auction will commence on 1 March 2019 (or if the rules are made after 1 December 2018, then it will commence 60 business days after the rules are made). If a facility later becomes subject to the auction (e.g. because it is commissioned after the auction commences or its exemption is revoked), the auction will apply to the facility 120 business days after the date on which it becomes subject to the auction.
Operation of auction		AEMO will be responsible for establishing, operating and administering the auction. The settlement, prudential and reporting frameworks for the auction will be aligned with those used for the GSH and will allow a shipper using both markets to aggregate prudential requirements.
Auction participation		To participate in the auction shippers will be required to enter into an Auction Agreement with AEMO. To use the capacity procured through the auction, shippers will be required to have an OTSA in place with the relevant service provider.
Auction services	Auction services	Participants will be able to use the auction to procure: <ul style="list-style-type: none"> ▪ forward haul transportation services (with separate products offered in both directions on bi-directional²¹ pipelines); ▪ backhaul services on those single direction pipelines (or parts of pipelines) on which AEMO specifies backhaul service points; and ▪ stand-alone compression services.
	Auction service priorities	<p>Classification of services: Auction facility operators will be required to classify each of their services (excluding auction services) as being either a firm service or a lower tier service (having regard to the definitions in the NGR) and to use the same classification for the purposes of determining auction quantity limits and complying with the auction service priority principles. Where there is some doubt about whether a service should be classified as a firm or lower tier service, service providers will be required to adopt a classification that is reasonable, having regard to the definitions of firm and lower tier services in the NGR and reasonable commercial practice in the industry. If requested by the AER, an auction facility operator must give the AER the information reasonably required by the AER to assess the classification of the service.</p> <p>Priority principles: Auction services will be subject to the following priority principles:</p> <ul style="list-style-type: none"> ▪ For contracted capacity, auction services will rank below firm transportation services and renomination rights²² held by firm capacity holders, but above all lower tier services from a scheduling, curtailment and renomination perspective. ▪ If there is a more general shortfall in the facility's capacity, which affects both the contracted and uncontracted capacity on a day (including in the case of backhaul, by reason of a reduction in net firm forward haul flows), the auction service will be curtailed after lower tier services. <p>After the auction, service providers will be able to sell any unused auction capacity on an interruptible basis, but these services will rank below the auction product from a curtailment and renominations right perspective.</p> <p>Auction facility operators will be required to comply with these priority principles to the extent it is operationally and technically feasible to do so and will also be prohibited from scheduling lower tier services earlier than the auction service. Auction facility operators will also have a transitional immunity from civil monetary liability that may otherwise arise as a result of complying with these requirements or releasing contracted capacity into the auction.</p>

²¹ A pipeline will be classified as bi-directional if at any time the direction of the physical flow of gas on the pipeline (or part) is capable of being reversed under normal operating conditions and transportation facility users have transportation capacity for firm forward haul services in both directions (with a service time that includes that time).

²² The term 'renomination rights' is used in this context to refer to firm and reasonable endeavours renomination rights.



Design Element	Detail
Grandfathered rights	<p>Grandfathered ('transitional firm') services: Transitional arrangements will be implemented for a two-year period following the commencement of the auction to enable transportation services that meet the following criteria to be treated as 'transitional firm' services for the purposes of the auction priority principles and therefore rank ahead of the auction product both in relation to nominations and renominations:</p> <ul style="list-style-type: none"> ▪ the transportation service is currently treated as firm once scheduled (e.g. some as available and authorised overrun services); ▪ the transportation service is used for the supply of gas for consumption by a gas-fired generator that is a market generating unit; ▪ at least one of the service points is either a point at which gas is supplied for consumption by a market generating unit, or is on another transportation facility that is used to receive gas for onward transportation to a market generating unit; and ▪ the terms and conditions for use of the transportation service are set out in a primary facility agreement made on or before 19 March 2018 and are the same, or substantially the same, as the terms and conditions in force on that date. <p>Classification of transitional firm services: Auction facility operators will be responsible for classifying a service as a transitional firm service in accordance with criteria specified in the NGR and must notify the AER if they intend to do so no later than 30 business days before the classification takes effect. The AER can ask for more information to explain the classification. If the AER is not satisfied a service meets the criteria, it may reject the classification and it may also revoke the classification at a later point if it is not satisfied the criteria in the NGR are met.</p> <p>The AER will be responsible for monitoring compliance with the conditions of use of these services (e.g. to ensure the services are being used at a gas-fired generation site).</p>
Other features of the auction service	<p>The terms and conditions on which a shipper can use auction products will be set out in the auction facility operator's standard OTSA (or other agreement containing the terms for use of the service), which, amongst other things, will specify the hourly flexibility the shipper will have and provide for a reasonable endeavours renomination right and a zero-imbalance allowance. If the shipper requires additional flexibility, it can procure it from service providers or shippers (where operationally and technically feasible).</p>
Contract path specification	<p>Forward haul and compression auction services will be sold using a hybrid point-to-point and zonal model. The hybrid model will allow auction participants to bid on a point-to-point basis for any unused capacity at individual receipt or delivery points, but their ability to secure capacity at those points will depend on whether there is sufficient: CBU capacity available in the receipt point zone and delivery point zone they wish to use; and CBU capacity along the pipeline segments (or the compression facility) they need to use.</p> <p>Backhaul services will be sold on a point-to-point basis between points that AEMO determines should be included in the auction from time to time. In contrast to forward haul and compression services, the availability of backhaul services will not be constrained by CBU capacity. The availability of backhaul services will depend on whether there are sufficient firm net forward haul flows between the points used for the backhaul service.</p>



Design Element	Detail
Auction format	<p>Auction design principles</p> <p>The day-ahead auction will take the form of a partial combinatorial auction (which will allow capacity to be procured across multiple pipelines and compressors, irrespective of location or asset ownership) with static backhaul (i.e. auction backhaul services are allocated in a static manner against net forward haul firm flows and do not take into account forward haul flows generated through the auction). The auction will also provide for:</p> <ul style="list-style-type: none"> ▪ a single round sealed bid process with a zero reserve price (with compressor fuel provided in-kind or procured from the facility operator); ▪ a pay-as-cleared pricing rule, which will be determined by the lowest accepted bids in the auction; and ▪ auction winners to be determined using the revenue-maximising combination of bids, with auction proceeds to be allocated to service providers on the basis of the revenues achieved by the products provided by each auction facility operator.
	<p>Auction quantity limits</p> <p>AEMO will be responsible for determining the methodology to be used to calculate the auction quantity limits (having regard to the principles in the NGR), which will be set out in the Capacity Transfer and Auction Procedures.</p> <p>Auction facility operators will be responsible for determining their facility's auction quantity limits, operational capacity and any capacity shortfall (in accordance with provisions in the NGR and the Capacity Transfer and Auction Procedures). The operational capacity must be determined in accordance with accepted good industry practice.</p>
Treatment of curtailment	<p>Given the auction product will not be a firm product, the following additional measures will be available to deal with the risk of curtailment, which could occur as a result of renominations by firm capacity holders or more general technical or operational constraints:</p> <ul style="list-style-type: none"> ▪ All auction participants will be able to choose whether they are only curtailed on that product or curtailed across all products included in the winning bid (to operationalise this option, shippers will renominate down on the other products). ▪ If curtailment is required, it will occur on a pro-rata basis across auction capacity users and auction participants will not be required to pay for the curtailed capacity or the capacity that has been renominated down on other products. <p>Auction participants will also be able to try and avoid curtailment by procuring uncontracted capacity from the service provider of the asset that is experiencing the curtailment if such capacity is available (this will be a matter for negotiation).</p>
Information to be provided and published	<p>AEMO will be responsible for publishing a range of information pre- and post-auction on the BB, which will be set out in the Capacity Transfer and Auction Procedures. This is expected to include information on:</p> <ul style="list-style-type: none"> ▪ the products that will be available in the auction and the auction quantities prior to the auction being conducted (the NGR will allow AEMO to implement measures to ensure the publication of information does not directly or indirectly disclose a nomination made by a market generating unit); ▪ the results of the auction (e.g. clearing prices, price sensitivities, quantities of auction capacity allocated and, where relevant, the amount of auctioned capacity that has been curtailed), which, until sufficient liquidity develops in this market, will not include the bid stack; and ▪ whether a facility has classified any transitional firm services and the amount of transitional firm services taken into account in the calculation of the auction quantity limits, which will be published after the gas day. <p>Service providers will also be required to report when an intra-day curtailment of auctioned capacity occurs and why it has occurred (e.g. due to a renomination or a general curtailment event) and indicate whether it is a material curtailment (i.e. more than 10% of the auctioned capacity has been curtailed). If the reason for the curtailment or extent of the curtailment changes through the day, this information will need to be updated.</p> <p>Service providers will also be required to provide other information that AEMO requires for the purposes of the auction in accordance with the Capacity Transfer and Auction Procedures, including revisions if settlement information contains an error or discrepancy.</p>



Design Element	Detail
Market conduct related rules	<ul style="list-style-type: none">▪ Auction participants will be required to comply with similar general conduct requirements (e.g. not to act fraudulently, dishonestly or in bad faith) and market conduct rules (e.g. an auction participant must not manipulate or attempt to manipulate the auction) to those that apply in the GSH.▪ To ameliorate the gaming risks associated with nominations and renomination rights, shippers will be prohibited from making a nomination or renomination that is false, misleading or likely to mislead.▪ Service providers will be prohibited from bidding (directly or indirectly) in the auction for capacity on their own facility or engaging in conduct with the intent of distorting or manipulating prices.
Auction payments	<p>The Capacity Transfer and Auction Procedures will specify the method to be used to determine the maximum total payment to facility operators. These procedures will also set out what is to occur if:</p> <ul style="list-style-type: none">▪ there is a shortfall in the amount AEMO has been paid, or which AEMO is able to recover through credit support; and▪ AEMO subsequently receives payment of a shortfall amount.



Table A.4: Final design of the reporting framework for secondary capacity trades and other transparency measures

Design Element	Detail
Reporting framework for secondary capacity trades	
Trades to be reported	<p>Information on the following secondary capacity transactions must be reported to AEMO for publication on the BB:</p> <ul style="list-style-type: none"> ▪ all screen and pre-matched trades carried out through the capacity trading platform; and ▪ bilateral trades of capacity (bare transfers and operational transfers) involving forward haul, backhaul, park, loan or compression services (excluding services on distribution pipelines). <p>The following transactions will not be required to be reported:</p> <ul style="list-style-type: none"> ▪ the use of capacity to satisfy an obligation under an agreement for the supply of natural gas; ▪ an agreement to swap a quantity of gas at a location for a quantity of natural gas at another location; ▪ a novation of an agreement with a service provider; or ▪ transactions between closely related entities. <p>Note that apart from these exclusions there are no facility based exemptions from secondary capacity reporting framework. Parties entering into trades on facilities with an exemption (see Table A.1) will therefore be required to report the trades unless the trade falls into a category listed above.</p>
Information to be reported	<p>The following information on secondary capacity trades will need to be reported:</p> <ul style="list-style-type: none"> ▪ the identity of the trading parties and who the seller is; ▪ the trade date and service term; ▪ the transportation facility that the trade relates to; ▪ the type of service purchased and the priority of the service (e.g. firm, as available, interruptible); ▪ the type of trade and for bilateral trades, whether the trade is on the same or substantially the same terms as those in the facility's standard OTSA; ▪ where relevant, the direction of the service and the points between which gas is transported; ▪ the amount of capacity procured (maximum daily quantity (MDQ)) and for bilateral trades the maximum hourly quantity (MHQ); and ▪ the price paid (including, where relevant, the price structure and price escalation mechanism). <p>If it is not practicable to report some of this information (i.e. due to the nature or terms of the transaction), then a reasonable estimate or approximation will need to be reported.</p> <p>Note that while information on the trading parties and receipt and delivery points is required to be reported, AEMO will be prevented from publishing the names of the trading parties and will be required publish the trades on a zonal basis (or a facility basis if the transportation facility is not subject to the capacity trading reforms).</p>



Design Element	Detail
When and where information is to be reported	Trades carried out: <ul style="list-style-type: none"> ▪ through the exchange must be reported on the GSH as soon as practicable after the trade occurs and published by AEMO on the BB by the end of the gas day; and ▪ bilaterally must be reported by sellers (or a capacity transaction reporting agent if appointed by the seller) on the BB: <ul style="list-style-type: none"> – by the earlier of one business day after the trade is executed, and the day prior to the trade commencing (D-1) for trades where the service term starts after the trade date; or – as soon as reasonably practicable on the trade date for trades where the service term starts on the trade date.
Allocation arrangements	
Information to be reported	Allocation agents will be required to provide AEMO with the following information for publication on the BB: <ul style="list-style-type: none"> ▪ a description of the allocation methodology used at the allocation point; ▪ a description of the process for joining and leaving the agreement and any charges payable to become a party to the agreement; and ▪ the allocation agent's contact details. This obligation will be limited to allocation agents that operate at points through which gas is injected into or withdrawn from a transportation facility that is subject to the capacity trading reforms and system injection and system withdrawal points in the DTS for which an allocation agent is appointed under Part 19 of the NGR, excluding, in each case, a point at which the allocation of deliveries and receipts of natural gas is determined under the Retail Market Procedures.
Extension of Bulletin Board reporting obligations	
Obligations	Service providers that are subject to BB reporting obligations will be required to provide AEMO with information on the nameplate rating for each receipt and delivery point. Service providers for remote transportation facilities that would otherwise be excluded from the BB reporting obligations but are ineligible for, or unable to obtain, one of the exemptions outlined in Table A.1, will be subject to the reporting obligations.
Information about compression facilities	Non-exempt compression facilities subject to the capacity trading reforms will be required to publish the following information from 1 February 2019: <ul style="list-style-type: none"> ▪ the nameplate rating; ▪ detailed facility information; ▪ a 12-month outlook of uncontracted primary compression capacity; ▪ a short-term capacity outlook; ▪ a linepack/capacity adequacy indicator; ▪ nominated and forecast use of the facility; and ▪ daily production data.



Table A.5: Final design of the harmonisation of gas day start times and nomination cut-off times

Design Element	Detail
Harmonised times	<p>The harmonisation reforms will be implemented through a standard market timetable that will commence on 1 October 2019 and provide for:</p> <ul style="list-style-type: none"> ▪ a common gas day start time of 6 am (AEST) across the east coast (and the NT once it becomes connected to the east coast) that will apply to the operators of all production, pipeline, compression and storage facilities and in the facilitated markets (e.g. the GSH, STTM and retail markets); ▪ a common nomination cut-off time of 3 pm (AEST) for transportation facilities that will be subject to the capacity trading reforms; and ▪ an auction service nomination cut-off time of 6:45 pm (AEST) for transportation facilities that will be subject to the day-ahead auction.
Transition to the harmonised times	<p>To help market participants transition to the standard market timetable:</p> <ul style="list-style-type: none"> ▪ AEMO will be required to publish information on the arrangements it will implement to transition to the standard gas day in each of the facilitated markets by 1 April 2019; and ▪ facility operators that provide services to third parties will be required to publish information about the operational arrangements they will put in place to transition to the standard gas day and standard nomination cut-off time (if applicable) by the earlier of 30 June 2019 and 20 business days before they implement the new gas day. <p>If any amendments to contracts are required to implement the standard market timetable, then parties will be required to negotiate in good faith to amend their contracts accordingly and will be able to have recourse to a dispute resolution mechanism if agreement cannot be reached. Those required to implement the standard market timetable will also have a transitional immunity from civil monetary liability they may incur from their use of the standard market timetable.</p>